NEW ISSUE-BOOK-ENTRY ONLY

In the opinion of Bond Counsel, under existing law and assuming the accuracy of certain representations and subject to compliance with certain covenants, interest on the 2007 PFC Bonds will not be included in gross income for federal income tax purposes. Interest on the 2007 PFC Bonds will not be treated as an item of tax preference for purposes of computing the federal alternative minimum tax imposed on certain taxpayers. However, interest on the 2007 PFC Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. In addition, in the opinion of Bond Counsel, the interest on the 2007 PFC Bonds and any profit made from their sale are exempt under existing law from Massachusetts personal income taxes, and the 2007 PFC Bonds are exempt from Massachusetts personal property taxes. However, interest on the 2007 PFC Bonds is included in the measure of Massachusetts estate and inheritance taxes and certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion regarding any other tax consequences arising with respect to the 2007 PFC Bonds. See "TAX EXEMPTION" herein.

massport

$113,610,000
MASSACHUSETTS PORT AUTHORITY
$48,480,000 PFC Revenue Bonds, Series 2007-B (Non-AMT)
$65,130,000 PFC Revenue Refunding Bonds, Series 2007-D (Non-AMT)

Dated: Date of Delivery **Due: July 1, as shown on page (i) hereof**

The Massachusetts Port Authority (the "Authority") is issuing its PFC Revenue Bonds, Series 2007-B (the "2007-B PFC Bonds") and its PFC Revenue Refunding Bonds, Series 2007-D (the "2007-D PFC Bonds" and collectively with the 2007-B PFC Bonds, the "2007 PFC Bonds") pursuant to the PFC Revenue Bond Trust Agreement dated as of May 6, 1999 (the "PFC Trust Agreement"), as heretofore supplemented, between the Authority and The Bank of New York, as trustee (the "Trustee") and a Second Supplemental Agreement (the "Second Supplemental Agreement") dated as of May 17, 2007 between the Authority and the Trustee. The 2007 PFC Bonds are being issued to finance certain capital improvements and related costs at Boston-Logan International Airport (the "Airport") and to advance refund certain PFC Bonds, as described herein. The 2007 PFC Bonds and any additional bonds that may be issued under the PFC Trust Agreement on a parity with the 2007 PFC Bonds are secured by a pledge of revenues to be received by the Authority from certain passenger facility charges ("PFCs") imposed by the Authority at the Airport. The 2007 PFC Bonds are not secured by any other revenues of the Authority. **The 2007 PFC Bonds will be payable solely from certain PFCs that are pledged under the PFC Trust Agreement and from certain funds and accounts held by the Trustee, all as described herein. The Authority has no taxing power. The 2007 PFC Bonds will not constitute a general obligation of the Authority or a debt or a pledge of the faith and credit of The Commonwealth of Massachusetts or of any political subdivision thereof.**

The 2007 PFC Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). Purchasers will acquire beneficial ownership interests in the 2007 PFC Bonds in denominations of $5,000 or integral multiples thereof and will not receive physical delivery of bond certificates. So long as Cede & Co. is the registered owner of the 2007 PFC Bonds, principal and semiannual interest (payable January 1 and July 1, commencing January 1, 2008) will be payable by the Trustee to Cede & Co., as nominee for DTC. See "THE 2007 PFC BONDS – Book-Entry Only Method."

The 2007 PFC Bonds are not subject to optional redemption prior to maturity.

The scheduled payment of principal of and interest on the 2007 PFC Bonds maturing on July 1 of the years 2010 through 2017, inclusive (the "Insured Bonds") when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by FINANCIAL SECURITY ASSURANCE INC. (the "Bond Insurer").

FSA®

See page (i) hereof for maturities, principal amounts, interest rates, and prices or yields.

The 2007 PFC Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to the receipt of an unqualified approving opinion as to legality by Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by its Disclosure Counsel, Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, and for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Government Finance Associates, Inc., New York, New York, serves as Financial Advisor to the Authority. Delivery of the 2007 PFC Bonds to DTC is expected in New York, New York on or about June 7, 2007.

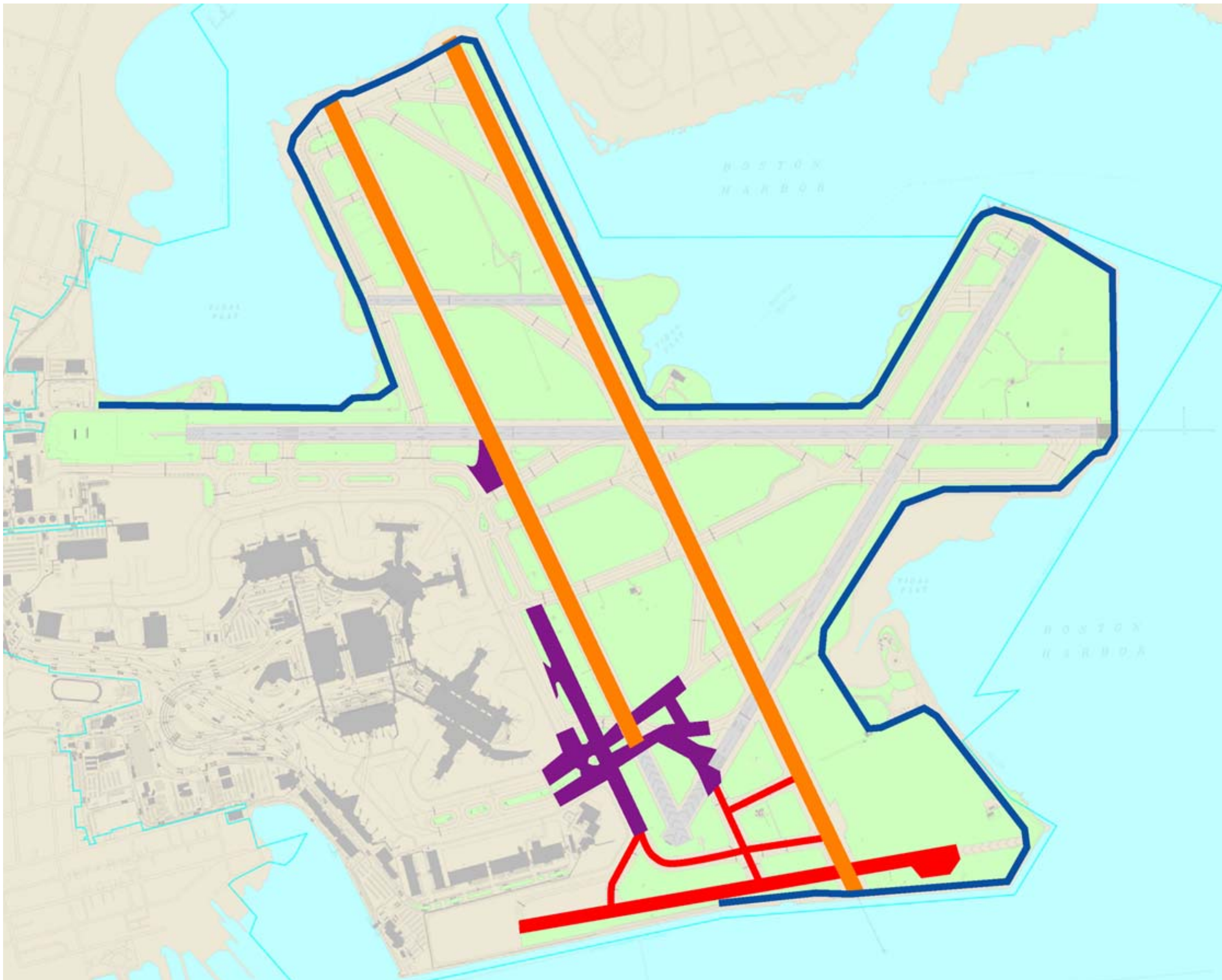
UBS Investment Bank

Goldman, Sachs & Co. **Merrill Lynch & Co.** **Siebert Brandford Shank & Co., LLC**

May 31, 2007

Boston-Logan International Airport

Boston, MA



Runway 14-32 and Associated Taxiways
Southwest Taxiways, Infield and Taxiway K Improvements
Runways 4L-22R and 4R-22L Improvements
Airport Drainage and Perimeter Road Improvements

Massachusetts Port Authority

Boston, MA

Massachusetts Port Authority
$48,480,000
PFC Revenue Bonds, Series 2007-B (Non-AMT)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†
2008	$3,535,000	4.000%	3.730%	575896DT9	2014*	$3,335,000	5.000%	3.920%	575896EA9
2009	3,810,000	4.000	3.800	575896DU6	2015*	4,205,000	4.000	3.980	575896EB7
2010*	3,965,000	4.000	3.770	575896DV4	2015*	650,000	5.000	3.980	575896EC5
2011*	4,120,000	4.000	3.790	575896DW2	2016*	5,055,000	4.000	4.020	575896ED3
2012*	4,285,000	4.000	3.830	575896DX0	2017*	3,460,000	4.000	4.060	575896EE1
2013*	4,460,000	4.000	3.870	575896DY8	2017*	6,300,000	4.500	4.060	575896EF8
2014*	1,300,000	4.000	3.920	575896DZ5					

$65,130,000
PFC Revenue Refunding Bonds, Series 2007-D (Non-AMT)

Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†	Maturity (July 1)	Amount	Interest Rate	Yield	CUSIP†
2009	$100,000	3.500%	3.800%	575896EG6	2014*	$ 100,000	3.875%	3.920%	575896EM3
2010*	100,000	3.625	3.770	575896EH4	2015*	4,110,000	5.000	3.980	575896EN1
2011*	100,000	3.750	3.790	575896EJ0	2016*	17,270,000	5.500	4.020	575896EP6
2012*	100,000	3.800	3.830	575896EK7	2017*	43,150,000	5.000	4.060	575896EQ4
2013*	100,000	3.850	3.870	575896EL5					

* Scheduled payment of principal and interest when due is guaranteed under an insurance policy to be issued by Financial Security Assurance Inc.

No dealer, broker, salesperson or other person has been authorized by the Authority or any of its agents or the Underwriters to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2007 PFC Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Authority, the Bond Insurer and The Depository Trust Company and includes information from other sources which are believed to be reliable but, as to information from sources other than the Authority, is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains forecasts, projections and estimates that are based on current expectations. In light of the important factors that may materially affect the financial condition of the Authority and the aviation industry generally and other economic and financial matters, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by the Authority or the Underwriters that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 PFC BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("*Financial Security*") contained under the caption "BOND INSURANCE" and in APPENDIX G – Form of Municipal Bond Insurance Policy herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the 2007 PFC Bonds; or (iii) the tax exempt status of the interest on the 2007 PFC Bonds.

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Michael G. Ellis, *Comptroller*
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Airport Consultants
Jacobs Consultancy Inc.
Burlingame, California

Independent Auditors
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Boston, Massachusetts

OFFICIAL STATEMENT
of the
MASSACHUSETTS PORT AUTHORITY

Relating to its

$48,480,000 PFC Revenue Bonds, Series 2007-B (Non-AMT)
$65,130,000 PFC Revenue Refunding Bonds, Series 2007-D (Non-AMT)

INTRODUCTION

This Official Statement of the Massachusetts Port Authority (the "*Authority*") sets forth certain information concerning the Authority and its $48,480,000 PFC Revenue Bonds, Series 2007-B (the "*2007-B PFC Bonds*") and $65,130,000 PFC Revenue Refunding Bonds, Series 2007-D (the "*2007-D PFC Bonds*" and together with the 2007-B PFC Bonds, the "*2007 PFC Bonds*"), in connection with the sale of the 2007 PFC Bonds by the Authority.

As described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS," the 2007 PFC Bonds are payable solely from certain pledged revenues, consisting principally of a portion of the revenues to be received by the Authority from passenger facility charges ("*PFCs*") authorized by the Federal Aviation Administration (the "*FAA*") and imposed by the Authority on certain enplaning passengers at Boston-Logan International Airport ("*Logan*" or the "*Airport*"). The Authority has reserved the right to pledge other income, revenue or receipts of the Authority legally available to the payment of 2007 PFC Bonds ("*Additional Pledged Revenue*"), but the Authority has no obligation and no present plan to do so.

The Authority, created pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "*Enabling Act*"), is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "*Commonwealth*"). The Authority controls, operates and manages the following three projects: the "Airport Properties," consisting of the Airport and Laurence G. Hanscom Field ("*Hanscom Field*"); the Maurice J. Tobin Memorial Bridge (the "*Bridge*"); and the "*Port Properties*," consisting of certain facilities in the Port of Boston (the "*Port*") and other properties. In 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement among the Authority, the City of Worcester, Massachusetts, and the Worcester Airport Commission. See "BOSTON-LOGAN INTERNATIONAL AIRPORT" and "THE AUTHORITY" herein for a description of the Airport and the Authority.

The information contained in this Official Statement does not include descriptions of the Authority's operations other than those at the Airport relating to matters relevant to the 2007 PFC Bonds. For descriptions of the Authority's other operations and financial matters, including information relating to the Authority's overall capital program and financing plans, reference is made to the most recent annual filing of the Authority that has been provided to each nationally recognized municipal securities information repository in accordance with certain continuing disclosure undertakings of the Authority. As of the date of this Official Statement, the Authority's most recent Statement of Annual Financial Information and Operating Data is dated December 7, 2006 (the "*2006 Annual Filing*"). Reference is also made to the Authority's Official Statement (the "*2007 Revenue Official Statement*") dated May 31, 2007, relating to its $51,465,000 Revenue Bonds, Series 2007-A (the "*2007-A Bonds*") and its $32,125,000 Revenue Refunding Bonds, Series 2007-C (the "*2007-C Bonds*," and together with the 2007-A Bonds, the "*2007 Bonds*"), which are being issued contemporaneously with the 2007 PFC Bonds pursuant to a trust agreement by and between the Authority and U.S. Bank National Association, as trustee, dated as of August 1, 1978, as amended and supplemented (the "*1978 Trust Agreement*"). The 2006 Annual Filing is available from the Authority or each nationally recognized municipal securities information repository and the 2007 Revenue Official Statement is available from the Authority and the Underwriters.

Scheduled payments of principal of and interest on the 2007 PFC Bonds maturing on July 1 of the years 2010 through 2017, inclusive (the "*Insured Bonds*") when due will be guaranteed under an insurance policy (the

"*Bond Insurance Policy*" or "*Policy*") to be issued concurrently with the delivery of the Insured Bonds by Financial Security Assurance Inc. (the "*Bond Insurer*" or "*Financial Security*"). See "BOND INSURANCE" and APPENDIX G – Form of Municipal Bond Insurance Policy.

The 2007 PFC Bonds are to be issued under and pursuant to the Enabling Act, the PFC Revenue Bond Trust Agreement by and between the Authority and The Bank of New York, as trustee (the "*Trustee*"), dated as of May 6, 1999 (the "*PFC Trust Agreement*"), as heretofore supplemented, a Second Supplemental Agreement by and between the Authority and the Trustee dated as of May 17, 2007 (the "*Second Supplemental Agreement*") and a resolution of the Authority pertaining to the issuance of the 2007 PFC Bonds (the "*2007 PFC Bond Resolution*") adopted by the Authority on May 17, 2007.

On June 9, 1999, the Authority issued $249,355,000 of its PFC Revenue Bonds, Series 1999A (Non-AMT) (the "*1999A PFC Bonds*") and PFC Revenue Bonds, Series 1999B (AMT) (the "*1999B PFC Bonds*" and, together with the 1999A PFC Bonds, the "*1999 PFC Bonds*"). The PFC Trust Agreement provides for the issuance of additional bonds on a parity (the "*Additional Parity Bonds*") with the 1999 PFC Bonds and the 2007 PFC Bonds, and also for the issuance of additional bonds subordinate to the 1999 PFC Bonds and the 2007 PFC Bonds, in each case, subject to certain terms and conditions of the PFC Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Indebtedness." The Authority anticipates that it may issue Additional Parity Bonds and/or Subordinate Lien PFC Obligations in the future. As used herein, the term "*PFC Bonds*" means the 1999 PFC Bonds and the 2007 PFC Bonds and any Additional Parity Bonds that may be issued hereafter under the PFC Trust Agreement. For a description of the pledge of certain PFC Pledged Revenues of the Authority under the PFC Trust Agreement, see "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS."

The 2007 PFC Bonds are being issued to: (i) finance or refinance, together with other available funds of the Authority, the PFC-eligible costs of the design and construction of Runway 14/32 and Associated Taxiways, Southwest Taxiway, Infield and Taxiway K Improvements, Runway 4L/22R and 4R/22L Improvements and Airfield Drainage and Perimeter Road Improvements, (collectively, the "*2007 PFC Bond Projects*"), (ii) advance refund all or a portion of the outstanding 1999A PFC Bonds (the "*Refunded Bonds*"), (iii) make deposits to the Debt Service Reserve Fund, and (iv) pay certain costs of issuing the 2007 PFC Bonds. The 2007 PFC Bond Projects are among the capital projects approved by the FAA pursuant to Records of Decision issued by the FAA on August 21, 1993 (the "*1993 Approval*"), January 27, 1997 (the "*1997 Approval*") and February 5, 1998 (the "*1998 Approval*") and Final Agency Decisions issued by the FAA on September 2, 2005 (the "*2005 Approval*") and April 20, 2006 (the "*2006 Approval*" and collectively with the 1993 Approval, the 1997 Approval, the 1998 Approval and the 2005 Approval, the "*FAA Approvals*"). The 2007 PFC Bond Projects, together with the other projects approved in the FAA Approvals and any projects that may be approved by the FAA in any amendment to the FAA Approvals or in any new approval, are referred to herein as the "*Approved Projects*." The FAA Approvals, as the same may be amended or supplemented, together with any other record of decision (and any amendments and supplements thereto) relating to PFCs imposed by the Authority at the Airport, are referred to herein as "*PFC Authority*." See "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM — 2007 PFC Bond Projects" and "PLAN OF FINANCE."

The 2007 PFC Bonds are limited obligations of the Authority. Except as described herein, the 2007 PFC Bonds are payable solely from and are secured equally by a pledge of PFC Pledged Revenue and Additional Pledged Revenue, if any. No other revenues of the Authority are currently pledged to the payment of the 2007 PFC Bonds. Under the PFC Trust Agreement, "*PFC Pledged Revenue*" means that portion of the revenue (and the investment earnings thereon) received by the Authority from time to time from PFCs imposed by the Authority at the Airport which is subject to the pledge of the PFC Trust Agreement. The PFC Pledged Revenue includes all revenue received by the Authority attributable to the first $4.50 of PFCs collected from each eligible passenger and is subject to increase or reduction as provided in the PFC Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS – PFC Pledged Revenue."

PFCs are fees authorized by the Aviation Safety and Capacity Expansion Act of 1990, as amended and recodified at 49 U.S.C. §40117 (the "*PFC Act*"), as implemented by the FAA pursuant to published regulations at 14 CFR Part 158 (the "*PFC Regulations*"). The Authority is required to apply to the FAA for approval before charging or using the proceeds of PFCs for any future project not authorized for PFC funding in the FAA Approvals. No

additional approvals are required from the FAA, however, before using PFCs to pay costs of the 2007 PFC Bond Projects or to pay debt service on the 2007 PFC Bonds. See "PASSENGER FACILITY CHARGES" for a description of the application and approval process and "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM" for a summary of the FAA Approvals obtained by the Authority to date.

Except to the extent payable from 2007 PFC Bond proceeds and investment income, the 2007 PFC Bonds are payable solely from PFC Pledged Revenue and Additional Pledged Revenue, if any. No other revenues of the Authority are currently pledged to the payment of the 2007 PFC Bonds. The Authority has no taxing power. The 2007 PFC Bonds will not constitute a debt, or a pledge of the faith and credit, of the Commonwealth or any political subdivision thereof. The 2007 PFC Bond Projects are not security for the 2007 PFC Bonds, and the 2007 PFC Bonds are not secured by a lien on any properties or improvements at the Airport or by a pledge of any revenues (other than PFC Pledged Revenue) derived by the Authority from the operation of the Airport generally. The 1999 PFC Bonds and the 2007 PFC Bonds will be secured separately from all of the Authority's other outstanding indebtedness. For a brief description of such indebtedness, see "THE AUTHORITY – Other Indebtedness of the Authority" and APPENDIX A – Financial Statements.

This Official Statement includes a description of the Authority, its Airport facilities and certain financial and operational factors relating to the Authority, and a description of the 2007 PFC Bonds and the security therefor. Except where noted, all information presented in this Official Statement has been provided by the Authority. The following appendices are included as part of this Official Statement: APPENDIX A – Financial Statements of the Authority for the fiscal year ended June 30, 2006 and comparative information for the fiscal year ended June 30, 2005, with a report thereon by PricewaterhouseCoopers LLP; APPENDIX B – Boston-Logan International Airport Market Analysis (the "*Market Analysis Report*") of Simat, Helliesen & Eichner, Inc. ("*SH&E, Inc.*") dated May 17, 2007; APPENDIX C – Review of PFC Revenue Forecasts (the "*Review of PFC Revenue Forecasts*") of Jacobs Consultancy, Inc. ("*Jacobs Consultancy*") dated May 17, 2007; APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement; APPENDIX E – Form of PFC Continuing Disclosure Agreement (the "*PFC Continuing Disclosure Agreement*"); APPENDIX F – Form of Opinion of Bond Counsel; and APPENDIX G – Form of Municipal Bond Insurance Policy. APPENDICES D and F have been prepared by Ropes & Gray LLP, Bond Counsel to the Authority. APPENDIX E has been prepared by Edwards Angell Palmer & Dodge LLP, Disclosure Counsel to the Authority. APPENDIX G has been provided by the Bond Insurer. Note that while APPENDIX A includes the financial statements for all of the Authority's operations, the 2007 PFC Bonds are payable solely from PFC Pledged Revenue.

Certain defined terms that are capitalized but not defined herein are defined in the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions." All references in this Official Statement to the PFC Trust Agreement, the First Supplemental Agreement, the Second Supplemental Agreement, the 2007 PFC Bonds, the PFC Continuing Disclosure Agreement and all other agreements, statutes and instruments are qualified by reference to the complete document. Copies of the PFC Trust Agreement, the First Supplemental Agreement and the Second Supplemental Agreement are available for examination at the offices of the Authority. The form of the PFC Continuing Disclosure Agreement is set forth in APPENDIX E hereto.

The Authority's principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128-2909. Its telephone number is (617) 568-5000. Copies of certain documents, including the Authority's Comprehensive Annual Financial Report for fiscal year 2006, which has been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association, are available electronically at the investors' page of the Authority's website at http://www.massport.com/about/about_inves.html. However, no information on the Authority's website is a part of or incorporated into this Official Statement.

THE 2007 PFC BONDS

General

The 2007 PFC Bonds will be issued as fully registered bonds in the aggregate principal amounts as set forth on page (i) hereof, will be dated their date of initial delivery, and will bear interest from that date to their respective

maturities as set forth on page (i) hereof. Ownership interests in the 2007 PFC Bonds will be available in denominations of $5,000 and integral multiples thereof. Interest on the 2007 PFC Bonds will be payable on January 1, 2008 and on each July 1 and January 1 thereafter.

So long as Cede & Co. is the registered owner of the 2007 PFC Bonds, all payments of principal and interest on the 2007 PFC Bonds are payable by wire transfer by the Trustee to Cede & Co. as nominee for DTC (as defined herein), which will, in turn, remit such amounts to the DTC Participants (as defined herein) for subsequent disposition to Beneficial Owners (as defined herein). See "Book-Entry Only Method" below.

Scheduled payments of principal and interest on the Insured Bonds when due will be guaranteed under the Bond Insurance Policy to be issued by the Bond Insurer concurrently with the delivery of the Insured Bonds. See "BOND INSURANCE."

Redemption

The 2007 PFC Bonds are not subject to redemption prior to maturity.

Book-Entry Only Method

The Depository Trust Company ("*DTC*"), New York, New York, will act as securities depository for the 2007 PFC Bonds. The 2007 PFC Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each Series of the 2007 PFC Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2007 PFC Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 PFC Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 PFC Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 PFC Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial

Owners will not receive certificates representing their ownership interests in 2007 PFC Bonds, except in the event that use of the book-entry system for the 2007 PFC Bonds is discontinued.

To facilitate subsequent transfers, all 2007 PFC Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 PFC Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 PFC Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 PFC Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 PFC Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2007 PFC Bonds, such as redemptions, defaults and proposed amendments to the security documents. For example, Beneficial Owners of 2007 PFC Bonds may wish to ascertain that the nominee holding the 2007 PFC Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2007 PFC Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2007 PFC Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2007 PFC Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the 2007 PFC Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2007 PFC Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2007 PFC Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2007 PFC Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the 2007 PFC Bonds as nominee of DTC, references herein to the holders or registered owners of the 2007 PFC Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 2007 PFC Bonds.

Neither of the Authority or the Trustee will have any responsibility or obligation to the Participants of DTC or the persons for whom they act as nominees with respect to (i) the accuracy of any records maintained by DTC or by any Participant of DTC, (ii) payments or the providing of notice to the Direct Participants, the Indirect Participants or the Beneficial Owners, (iii) the selection by DTC or by any Participant of DTC of any Beneficial Owner to receive payment in the event of a partial redemption of the 2007 PFC Bonds or (iv) any other action taken by DTC or its partnership nominee as owner of the 2007 PFC Bonds.

Transfer of 2007 PFC Bonds

So long as Cede & Co., as nominee for DTC (or other nominee of DTC), is the Bondholder of record of the 2007 PFC Bonds, beneficial ownership interests in the 2007 PFC Bonds may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, 2007 PFC Bond certificates will be delivered to the Beneficial Owners as described in the Second Supplemental Agreement. Thereafter, the 2007 PFC Bonds, upon surrender thereof at the principal office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of 2007 PFC Bonds of the same series and maturity and of any Authorized Denominations.

In all cases in which the privilege of exchanging or transferring 2007 PFC Bonds is exercised, the Authority shall execute and the Trustee shall authenticate and deliver the 2007 PFC Bonds in accordance with the provisions of the PFC Trust Agreement. For every such exchange or transfer of 2007 PFC Bonds, the Authority or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer but may impose no other charge therefor. Neither the Authority nor the Trustee shall be required to make any such exchange or transfer of 2007 PFC Bonds during the 15 days next preceding an Interest Payment Date or, in the case of any proposed redemption, during the 15 days next preceding the first publication or mailing of notice of redemption.

DEBT SERVICE REQUIREMENTS

The following table sets forth debt service on the Authority's outstanding PFC Bonds for each fiscal year in which such PFC Bonds will be outstanding, after giving effect to the issuance of the 2007 PFC Bonds and the refunding of the Refunded Bonds.

DEBT SERVICE REQUIREMENTS
PFC BONDS(1)
(in thousands)

Year Ending July 1	Other Outstanding PFC Bonds Debt Service(2)	2007-B PFC Bonds			2007-D PFC Bonds			Total PFC Bond Debt Service(3)
		Principal	Interest	Total	Principal	Interest	Total	
2007	$19,809	-	-	-	-	-	-	$19,809
2008	18,074	$3,535	$2,145	$5,680	-	$3,558	$3,558	27,311
2009	18,074	3,810	1,869	5,679	$100	3,335	3,435	27,188
2010	18,075	3,965	1,717	5,682	100	3,332	3,432	27,189
2011	18,076	4,120	1,558	5,678	100	3,328	3,428	27,182
2012	18,074	4,285	1,393	5,678	100	3,324	3,424	27,176
2013	18,074	4,460	1,222	5,682	100	3,321	3,421	27,177
2014	18,074	4,635	1,044	5,679	100	3,317	3,417	27,170
2015	12,954(4)	4,855	825	5,680	4,110	3,313	7,423	26,056
2016	-	5,055	624	5,679	17,270	3,107	20,377	26,056
2017	-	9,760	422	10,182(5)	43,150	2,158	45,308(5)	55,489

(1) Does not include commercial paper or debt service on obligations of the Authority not secured on a parity with the PFC Bonds under the PFC Trust Agreement, such as bonds issued under the 1978 Trust Agreement and special facilities revenue bonds. For a description of such other obligations, see "OTHER OBLIGATIONS."
(2) The figures shown in this column combine debt service for the outstanding 1999-B PFC Bonds.
(3) Column totals may not add due to rounding.
(4) The 1999-B Debt Service Reserve Fund balance is scheduled to fund $12,954,000 of the total debt service payments on the 1999-B PFC Bonds in 2015.
(5) Debt Service Reserve Fund balances are scheduled to fund $16,483,000 of the total debt service payment in 2017.

BOND INSURANCE

The following information has been furnished by Financial Security for use in this Official Statement. Reference is made to APPENDIX G for a specimen of the Municipal Bond Insurance Policy.

Bond Insurance Policy

Concurrently with the issuance of the 2007 PFC Bonds, Financial Security will issue its Bond Insurance Policy for the Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included in APPENDIX G.

The Policy is not covered by an insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("*Holdings*"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,601,527,000 and its total net unearned premium reserve was approximately $2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security's consolidated shareholder's equity was approximately $2,753,483,000 and its total net unearned premium reserve was approximately $1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Insured Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Official Statement.

SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS

General

The 1999 PFC Bonds and the 2007 PFC Bonds are issued under the PFC Trust Agreement. Under the PFC Trust Agreement the Authority may issue additional bonds on a parity with the 1999 PFC Bonds and the 2007 PFC Bonds (collectively, "*PFC Bonds*") upon the satisfaction of certain conditions. See "Additional Indebtedness" below. All PFC Bonds are equally and ratably secured under the provisions of the PFC Trust Agreement and by certain of the Funds, Accounts and Subaccounts established thereunder, provided, however, that amounts deposited in the Debt Service Reserve Fund may secure only one or more designated Series of PFC Bonds. See "Pledged Revenue" and "Debt Service Reserve Fund" below. The PFC Trust Agreement also permits the issuance of Subordinate Lien PFC Obligations, none of which have been issued. Neither the Enabling Act nor the PFC Trust Agreement limits the total amount of the PFC Bonds or Subordinate Lien PFC Obligations that may be outstanding at any time. For a table showing the debt service on the 1999 PFC Bonds and the 2007 PFC Bonds, see "DEBT SERVICE REQUIREMENTS."

Before giving effect to the issuance of the 2007 PFC Bonds and the refunding of the 1999A PFC Bonds, the Authority has Outstanding under the PFC Trust Agreement two series of PFC Bonds in the aggregate principal amount of $190,340,000, consisting of the Series listed in the following table:

**BONDS OUTSTANDING UNDER THE PFC TRUST AGREEMENT
BEFORE GIVING EFFECT TO THE ISSUANCE OF THE 2007 PFC BONDS**

Bond Issue	Issued	Amount Outstanding as of June 1, 2007
Revenue Bonds, Series 1999A (Non-AMT)*	June 1999	$ 67,665,000
Revenue Bonds, Series 1999B (AMT)	June 1999	122,675,000
Total		$190,340,000

*All of the 1999A PFC Bonds will be refunded with the proceeds of the 2007-D PFC Bonds. See "PLAN OF FINANCE" herein.

The summary of the security and sources of payment for the PFC Bonds set forth herein is qualified in its entirety by and reference is hereby made to APPENDIX D hereto and to the PFC Trust Agreement, which set forth in further detail provisions relating to the security for the PFC Bonds. For definitions of certain capitalized terms used but not defined herein, see APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions."

Limited Obligations

The PFC Bonds are limited obligations of the Authority. Payment of the principal of and premium, if any and interest on the PFC Bonds is secured by and payable solely from the revenues and other property from time to time pledged to secure such payment under the PFC Trust Agreement. See "Pledged Revenue" below.

The PFC Bonds do not constitute general obligations of the Authority, and the full faith and credit of the Authority are not pledged to the payment of the principal or redemption price of or interest on the PFC Bonds. Neither the Commonwealth nor any political subdivision thereof shall be obligated to pay the principal or redemption price of or interest on any PFC Bond, and neither the faith and credit nor the taxing power of the Commonwealth or any political subdivision thereof is pledged to such payment.

Pledged Revenue

In the PFC Trust Agreement, the Authority pledges as security for the PFC Bonds (i) the Pledged Revenue and (ii) all moneys or securities held in any of the Funds, Accounts and Subaccounts established under the PFC Trust Agreement (except the Rebate Fund, the Note Payment Fund and any Subordinated Debt Service Reserve Fund) together with the investment earnings thereon (except to the extent such earnings are required to be deposited into the Rebate Fund). See "Flow of Funds" below.

The term "*Pledged Revenue*" is defined in the PFC Trust Agreement to include (1) the PFC Pledged Revenue and (2) any Additional Pledged Revenue which the Authority may elect from time to time to add to the security for the PFC Bonds.

PFC Pledged Revenue. Under the PFC Trust Agreement the "*PFC Pledged Revenue*" includes the portion of the revenue received by the Authority from time to time from PFCs imposed by the Authority at the Airport pursuant to PFC Authority that is pledged to secure the PFC Bonds, including without limitation investment income with respect thereto earned after the proceeds of PFCs have been remitted to the Authority by the Collecting Carriers (as defined in "PASSENGER FACILITY CHARGES"). Such pledged portion will include all revenue received by the Authority that is attributable to the first $4.50 of PFCs collected from certain passengers (net of the portion of such PFCs permitted to be retained by the Collecting Carriers pursuant to the PFC Regulations). See "THE PFC PROGRAM." In the event that the maximum rate of collection is increased to more than $4.50 and the Authority receives authorization under the PFC Act to impose PFCs in excess of $4.50, the revenues received by the Authority that are attributable to the portion of PFC that exceeds $4.50 would not automatically be included in the pledge of PFC Pledged Revenue securing the PFC Bonds; such additional revenues would be security for the PFC Bonds only if and to the extent that the Authority by resolution added such revenues to the security provided under the PFC Trust Agreement.

In addition, the amount of revenues from PFCs pledged to secure the PFC Bonds may be **reduced** from time to time by resolution of the Authority subject to the condition that the Authority has received a certificate of an independent consultant nationally recognized in aviation matters (an "*Independent Aviation Consultant*") stating as provided in the following paragraphs (a), (b) and (c), after giving effect to such reduction of the pledged PFC Pledged Revenue:

(a) The First Lien Sufficiency Covenant is estimated to be achieved. See "First Lien Sufficiency Covenant" below.

(b) In each fiscal year of the Authority commencing with the first full fiscal year of the Authority following the effective date of such reduction and ending with the last full fiscal year preceding the Base Year (defined in paragraph (c) below), (i) the sum of the amount of Pledged Revenue estimated to be collected in such fiscal year, including without limitation the amount of interest earnings projected to be received in such fiscal year on moneys deposited in the PFC Capital Fund, but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than 150% of (ii) an amount equal to the annual debt service payable in such fiscal year with respect to

all outstanding PFC Bonds **minus** projected interest earnings for such fiscal year on moneys deposited in the Debt Service Fund, the Debt Service Reserve Fund and (to the extent required to be transferred to the Debt Service Fund) the Project Fund and **minus** capitalized interest, if any, available to be used to pay interest on PFC Bonds in such fiscal year.

(c) In a fiscal year of the Authority selected by the Independent Aviation Consultant, which is not earlier than the third full fiscal year following the date of such reduction of the pledged portion (the "*Base Year*"), the amount of Pledged Revenue to be collected in such fiscal year, including without limitation the amount of interest earnings projected to be received in such fiscal year on moneys deposited in the PFC Capital Fund but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than 150% of the Maximum Adjusted Annual Debt Service on all outstanding PFC Bonds.

In computing the amount of Pledged Revenue for the purposes of paragraphs (a), (b) and (c) the Independent Aviation Consultant shall take into account (i) any required reduction in the rate of the levy of the PFCs required to be collected by the collecting air carriers and (ii) any increase in the rate of the levy required to be collected by the collecting air carriers if such increase has been authorized by legislation and if the Authority has taken all actions and has received all approvals required to impose such additional PFCs, but in each case only if and to the extent that such rate adjustment shall affect the pledged portion of the PFCs received by the Authority after giving effect to the reduction in the pledged PFC Pledged Revenue proposed by the Authority. The Independent Aviation Consultant also may take into account any Additional Pledged Revenue estimated to be received during the period covered by the certificate, but only if each Rating Agency then maintaining a rating on PFC Bonds has confirmed on or prior to the date of the certificate that the inclusion of such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or withdraw its underlying rating on outstanding PFC Bonds. The Independent Aviation Consultant also shall take into account projections of PFC Pledged Revenue deemed reasonable by the Independent Aviation Consultant, based upon the methodology set forth in the certificate taking into account any projected change in the number of enplanements during the period covered thereby. In addition, for the purposes of paragraphs (b) and (c) above, projected interest earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place and scheduled to remain in place through the fiscal year for which such projection is made or, if and to the extent that such a rate of interest does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2½%) per annum.

The term "*Maximum Adjusted Annual Debt Service*" is defined in the PFC Trust Agreement to include credit for certain projected interest earnings and the application of funds in the Debt Service Reserve Fund to the payment of the principal balance of a series of PFC Bonds on the final maturity date of such series. In addition, for the purpose of the calculation required by such certificate, the scheduled debt service on PFC Bonds shall be adjusted as and to the extent provided in the definition of "*Debt Service*" set forth in the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions."

Additional Pledged Revenue. The second component of Pledged Revenue under the PFC Trust Agreement is "*Additional Pledged Revenue*." This term refers to any income, receipt or revenue of the Authority (other than PFC Pledged Revenue) legally available and pledged by resolution of the Authority to the payment of the principal of and interest on PFC Bonds. No such pledge will exist upon the issuance of the 2007 PFC Bonds; and the Authority has not committed, and has no obligation, to make any such additional pledge at any time or in any circumstance. In the event that any such pledge is made, the anticipated Additional Pledged Revenue so pledged will not be eligible to be included for the purpose of calculating compliance with the First Lien Sufficiency Covenant, satisfaction of paragraphs (a), (b) and (c) above or satisfaction of any additional debt test unless and to the extent that each Rating Agency then maintaining a rating on PFC Bonds has confirmed that the inclusion of such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or withdraw its underlying rating on the PFC Bonds.

Flow of Funds

The PFC Trust Agreement establishes nine Funds: a Project Fund, a PFC Pledged Revenue Fund, a Debt Service Fund, a Debt Service Reserve Fund, a Subordinated Debt Service Fund, a Subordinated Debt Service Reserve Fund, a Rebate Fund, a Note Payment Fund and a PFC Capital Fund. Each of these Funds will be held by the Trustee or another Fiduciary appointed under the PFC Trust Agreement, except that so long as no Event of Default shall have occurred and be continuing and the FAA shall not have issued any notice of suspected violation(s) of the PFC Act, the Airport Noise and Capacity Act of 1990 recodified at 49 U.S.C. §§47521-47533 (the "*Noise Act*") the PFC Regulations or the PFC Authority stating that the authority of the Authority to impose or use PFCs included in the PFC Pledged Revenue could be reduced or terminated (an "*FAA Notice*"), the PFC Pledged Revenue Fund and the PFC Capital Fund shall be maintained by the Authority and held by a Depository. Upon the occurrence of an Event of Default or receipt of an FAA Notice, the moneys and investments in the PFC Pledged Revenue Fund and the PFC Capital Fund are required to be delivered to the Trustee for so long as such Event of Default remains in effect or such suspected violation(s) remain unresolved. For a fuller description of the Funds see APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Establishment of Funds and Accounts."

PFCs paid by Collecting Carriers to the Authority will be deposited initially in a collection account maintained by the Authority. The PFC Trust Agreement provides that the Authority shall promptly cause all PFC Pledged Revenue received to be deposited in the PFC Pledged Revenue Fund. The funds on deposit in the PFC Pledged Revenue Fund shall be transferred by the Authority or the Trustee on the first Business Day following the last day of each month to the following funds and accounts in the following order:

First, to the Debt Service Fund, the amounts necessary on a pro rata basis (i) to make up any deficiency in any Account resulting from an increase in the applicable interest rate on any PFC Bonds constituting Variable Rate Indebtedness over the rate assumed in calculating the amount required for a prior deposit to such Account pursuant to the PFC Trust Agreement, (ii) to increase the amount on deposit in the Interest Account to equal interest next coming due on outstanding PFC Bonds accrued and unpaid and to accrue to and including the last day of the next succeeding month after taking into account any available moneys in the Capitalized Interest Account, (iii) to increase the amount on deposit in the Principal Account to equal that portion of the Principal Installment, if any, next coming due (within twelve months) on outstanding PFC Bonds (excluding any portion thereof to be paid on the final maturity date by application of moneys in the Debt Service Reserve Fund) accrued and unpaid and to accrue to and including the last day of the next succeeding month, (iv) to increase the amount on deposit in the Redemption Account to equal the Redemption Price of outstanding PFC Bonds then called for redemption (other than Sinking Fund Installments) as of any date on or prior to the last day of the next succeeding month and (v) to increase the amount on deposit in the Interest Account, if any, set aside for Regularly Scheduled Qualified Swap Payments to equal that portion of such swap payments next coming due accrued and unpaid and to accrue to and including the last day of the next succeeding month.

Second, to the Debt Service Reserve Fund, (i) one-twelfth of the amount necessary to increase the amount on deposit in the Series 2007B & D Account therein, determined as of the first day of the current fiscal year, to equal the First Lien Series Reserve Requirement applicable to the 2007 PFC Bonds, and (ii) the deposit to any other Account therein required by any Supplemental Agreement. See "Debt Service Reserve Fund" below.

Third, to the Subordinated Debt Service Fund, the amounts with respect to Subordinate Lien PFC Obligations determined in the same manner as the amounts in the Debt Service Fund set forth in Paragraph *First* above with respect to PFC Bonds.

Fourth, to the Subordinated Debt Service Reserve Fund, (i) the amount, if any, necessary to increase the amount on deposit in the Common Account therein, determined as of the first day of the current fiscal year, to equal the level required by any Supplemental Agreement, and (ii) the deposit required by any Supplemental Agreement to any other Account therein.

Fifth, to the Rebate Fund, the amount necessary to make the amount on deposit therein equal to the Rebate Fund Requirement, if any, determined in accordance with the applicable Supplemental Agreement.

Sixth, at the election of the Authority, after making the deposits set forth above, the amount remaining or any portion thereof, to the PFC Capital Fund.

Each Fund, Account and Subaccount must be funded from PFC Pledged Revenue to the amount required under the PFC Trust Agreement before PFC Pledged Revenue is transferred to Funds and Accounts lower in the flow of funds. For a more detailed explanation of the flow of funds see APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Flow of Funds from the PFC Pledged Revenue Fund."

First Lien Sufficiency Covenant

Under the PFC Trust Agreement, the Authority covenants that it will at all times establish, maintain and collect PFCs which, together with Additional Pledged Revenue, will be sufficient to meet the covenant described in the following sentence (the "*First Lien Sufficiency Covenant*") and will undertake to measure compliance with such covenant as of the end of each fiscal year of the Authority. The First Lien Sufficiency Covenant requires that (a) an amount equal to the aggregate dollar amount of PFC Pledged Revenue authorized to be collected by the Authority under PFC Authority **minus** the dollar amount of costs of Approved Projects (including debt service on PFC Bonds) paid or legally obligated to date to be paid from PFC Pledged Revenue (but excluding Projected Aggregate Debt Service with respect to PFC Bonds) **plus** projected Additional Pledged Revenue be equal to at least 105% of (b) the Projected Aggregate Debt Service with respect to all outstanding PFC Bonds.

For purposes of the First Lien Sufficiency Covenant the term "*Projected Aggregate Debt Service*" means the aggregate amount of annual debt service for the period commencing on the date of calculation through the scheduled maturity(ies) of one or more Series of PFC Bonds or through any optional redemption date together with premium, if any, applicable to such one or more Series of PFC Bonds, in each case calculated with the goal of minimizing the aggregate dollar amount necessary to pay and redeem such Series of PFC Bonds whether at maturity or redemption prior to stated maturity, **minus** amounts on deposit as of the calculation date in the Debt Service Fund and the Debt Service Reserve Fund created under the PFC Trust Agreement and available for the payment of debt service on such Series and **minus** projected interest earnings on the Project Fund and the Debt Service Reserve Fund available for the payment of debt service on such Series, provided that for the purpose of this definition such earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place for as long as the applicable moneys will be on deposit in such Funds and subject to such contracts or, for as long as and to the extent that such an investment contract does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2½%) per annum. Debt service included in Projected Aggregate Debt Service shall be adjusted as and to the extent provided in the definition of "Debt Service" set forth in the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions." See APPENDIX C – Review of PFC Revenue Forecasts for a calculation of actual and forecasted First Lien Sufficiency Covenant ratios.

If the First Lien Sufficiency Covenant is not met as of the end of any fiscal year of the Authority, the PFC Trust Agreement provides that the Authority shall (i) redeem or defease PFC Bonds and/or Subordinate Lien PFC Obligations in amounts sufficient to permit the Authority to comply with the First Lien Sufficiency Covenant; and/or (ii) identify Additional Pledged Revenue sufficient to establish compliance with the First Lien Sufficiency Covenant; and/or (iii) obtain an amendment to existing PFC Authority or new PFC Authority enabling the Authority to comply with the First Lien Sufficiency Covenant; and/or (iv) identify and agree to use other legally available funds of the Authority to pay Costs of Projects not already paid, in an amount sufficient (together with amounts realized as a result of the other options identified above) to meet the First Lien Sufficiency Covenant. If the First Lien Sufficiency Covenant is not met, and none of the steps in (i) through (iv) has been taken, the Authority shall not spend any money on deposit in the PFC Capital Fund except to pay debt service on the PFC Bonds, to make deposits to the Debt Service Reserve Fund, to pay debt service on Subordinate Lien PFC Obligations, to make deposits to the Subordinated Debt Service Reserve Fund, or to make deposits in the Rebate Fund.

As of June 30, 2006, the last day of the most recently completed fiscal year of the Authority, the ratio calculated in the First Lien Sufficiency Covenant was 138%, as compared to the 105% required by that covenant. As the date of issuance of the 2007 PFC Bonds, after giving effect to such issuance, to the refunding of the Refunded Bonds and to the increase of the PFC Pledged Revenues to include the entire PFC of $4.50 being collected by the Authority, the ratio calculated in the First Lien Sufficiency Covenant is expected to be approximately 169%.

The failure of the Authority to meet the First Lien Sufficiency Covenant shall not constitute an Event of Default unless, prior to curing such failure, the Authority fails to take one of the actions described in (i) through (iv) above and, while such failure continues, the Authority disburses money from the PFC Capital Fund for purposes other than those permitted under the preceding paragraph. See APPENDIX C – Review of PFC Revenue Forecasts for information regarding the Authority's compliance with the First Lien Sufficiency Covenant.

Covenants as to PFCs

The PFC Trust Agreement includes a number of other covenants of the Authority, including covenants that the Authority will comply with the PFC Act, the Noise Act and the PFC Regulations and with any conditions set forth in the PFC Authority and that the Authority will not take any action or omit to take any action if such action or omission, respectively, would cause the termination or reduction of the Authority's authority to impose PFCs included in the PFC Pledged Revenue or that would prevent the collection and use of the PFC Pledged Revenue as contemplated by the PFC Trust Agreement. In the PFC Trust Agreement the Authority also covenants that it will impose PFCs to the full extent authorized by the FAA in the FAA Approvals and that, except as required by the FAA, the Authority will not decrease the level of the PFCs to be collected from any eligible passenger, provided that such covenant shall not extend to any PFC that is not included in the PFC Pledged Revenue. The Authority also covenants that it will not impose any noise or access restriction at the Airport that would not be in compliance with the Noise Act, that it will contest any attempt by the FAA to terminate, reduce or suspend the Authority's authority to impose, receive or use PFCs at the Airport prior to the charge expiration date or the date on which the total PFC revenue permitted to be collected pursuant to FAA Approvals has been collected, that it will diligently seek approval to use PFC Pledged Revenue for the Approved Projects within the time periods set forth in the PFC Regulations, that it will begin implementation of the Approved Projects within the time periods set forth in the PFC Regulations and the FAA Approvals and that it will use reasonable efforts to obtain in a timely manner all permits and approvals required to construct and operate Approved Projects.

Covenants as to Operations and Maintenance

The Authority covenants in the PFC Trust Agreement that it will not take any action or omit to take any action that would cause the FAA, the United States Department of Transportation ("*DOT*") or any other state or federal agency to suspend or to revoke the Authority's operating certificates for the Airport, that it will at all times use reasonable efforts to keep the Airport open for take-offs and landings, that it will keep and cause to be kept all Airport facilities in good repair, working order and condition and will keep or cause to be kept all Airport facilities insured, if such insurance is available at reasonable rates and upon reasonable conditions, against such risks, in such amounts and with such deductibles and including such amounts of self-insurance as the Authority deems necessary.

Debt Service Reserve Fund

The PFC Trust Agreement establishes a Debt Service Reserve Fund to be funded with respect to each Series of PFC Bonds in an amount that equals the First Lien Series Reserve Requirement for such Series. With respect to the 2007 PFC Bonds the term "*First Lien Series Reserve Requirement*" means the lesser of (i) the maximum aggregate amount of debt service due on all outstanding 2007 PFC Bonds in any fiscal year of the Authority, (ii) 125% of the average annual debt service on such 2007 PFC Bonds and (iii) ten percent (10%) of the aggregate of the initial principal amount of the 2007 PFC Bonds. The Second Supplemental Agreement requires that the Series 2007B & D Account of the Debt Service Reserve Fund be fully funded from proceeds of the 2007 PFC Bonds or other available funds in an amount equal to the First Lien Series Reserve Requirement for the 2007 PFC Bonds. After the issuance of the 2007 PFC Bonds, the amount on deposit in the Series 2007B & D Account of the Debt

Service Reserve Fund will be approximately $11.4 million. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Debt Service Reserve Fund."

Moneys in the Series 2007B & D Account of the Debt Service Reserve Fund are available for the payment of principal and redemption price of and interest on the 2007 PFC Bonds only and do not secure all PFC Bonds equally and ratably. In the event that moneys are withdrawn from the Series 2007B & D Account of the Debt Service Reserve Fund, such withdrawal shall be replenished as nearly as practicable in twelve equal monthly installments commencing in the fiscal year following such withdrawal. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Flow of Funds from the PFC Pledged Revenue Fund."

Additional Indebtedness

The PFC Trust Agreement contains certain conditions precedent to the issuance of additional PFC Bonds on a parity with the 1999 PFC Bonds and the 2007 PFC Bonds ("*Additional Parity Bonds*"), including that the Authority shall have provided to the Trustee **either** the certificate of the Authority **or** the certificate of an Independent Aviation Consultant described below, in each case dated no earlier than 30 days prior to the issuance of such Additional Parity Bonds.

Authority Certificate. A certificate signed by an executive or financial officer of the Authority stating as provided in the following paragraphs (a) and (b), after giving effect to the issuance of such Additional Parity Bonds that:

(a) The First Lien Sufficiency Covenant will be achieved.

(b) Pledged Revenue, including without limitation the amount of interest earnings on moneys deposited in the PFC Capital Fund but excluding interest earnings on the Debt Service Fund, received by the Authority during any period of twelve consecutive months selected by the Authority out of the 18-month period next preceding the date of issuance of the proposed Additional Parity Bonds (as shown in the audited or unaudited financial statements of the Authority) was not less than 135% of Maximum Adjusted Annual Debt Service on all PFC Bonds that will be outstanding upon the issuance of such Additional Parity Bonds.

In computing the Pledged Revenue for the purpose of such certificate, the officer shall take into account (i) any required reduction in the rate of the PFCs required to be collected by the Collecting Carriers and (ii) any increase in the rate of the PFCs required to be collected by the Collecting Carriers if such increase has been authorized by legislation and if the Authority has taken all actions and has received all approvals required to impose such additional PFCs, but in each case only if and to the extent that such rate adjustment shall affect the pledged portion of the PFCs received by the Authority after giving effect to the issuance of the Additional Parity Bonds proposed to be issued by the Authority. The Authority also may take into account any Additional Pledged Revenue, but only if each Rating Agency then maintaining a rating on PFC Bonds has confirmed on or prior to the date of the certificate that the inclusion of such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or withdraw its underlying rating on the outstanding PFC Bonds.

For the 12 months ended December 31, 2006, coverage for purposes of the Additional Parity Bonds test described in the preceding paragraph (b) was 147%, based on Pledged Revenues for such period of $56,641,000 and Maximum Adjusted Annual Debt Service on all PFC Bonds of approximately $38,404,041, determined as provided above, after giving effect to the issuance of the 2007 PFC Bonds, the refunding of the Refunded Bonds and the increase of the PFC Pledged Revenues to include the entire PFC of $4.50 being collected by the Authority.

Independent Aviation Consultant Certificate. A certificate executed by an Independent Aviation Consultant stating as provided in the following paragraphs (a), (b) and (c), after giving effect to the issuance of such Additional Parity Bonds that:

(a) The First Lien Sufficiency Covenant is estimated to be achieved.

(b) In each fiscal year of the Authority commencing with the first full fiscal year of the Authority following the date of issuance of such Additional Parity Bonds and ending with the last full fiscal year preceding the Base Year (defined in paragraph (c) below), (i) the sum of the amount of Pledged Revenue estimated to be collected in such fiscal year, including without limitation the amount of interest earnings projected to be received in such fiscal year on moneys deposited in the PFC Capital Fund, but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than (ii) 150% of an amount equal to the annual debt service payable in such Fiscal Year with respect to all PFC Bonds to be outstanding after the issuance of such Additional Parity Bonds **minus** projected interest earnings for such fiscal year on moneys deposited in the Debt Service Fund, the Debt Service Reserve Fund and (to the extent required to be transferred to the Debt Service Fund) the Project Fund and **minus** capitalized interest, if any, available to be used to pay interest on PFC Bonds in such fiscal year.

(c) In a fiscal year of the Authority selected by the Independent Aviation Consultant, which is not earlier than the third full fiscal year following the date of issuance of such Additional Parity Bonds (the "*Base Year*"), the amount of Pledged Revenue to be collected in such fiscal year, including without limitation the amount of interest earnings projected to be received in such fiscal year on moneys deposited in the PFC Capital Fund but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than 150% of the Maximum Adjusted Annual Debt Service on all PFC Bonds to be outstanding.

In computing the amount of Pledged Revenue for the purposes of paragraphs (a), (b) and (c) the Independent Aviation Consultant shall take into account the factors described above with respect to the Authority certificate and shall take into account projections of PFC Pledged Revenue deemed reasonable by the Independent Aviation Consultant, based upon the methodology set forth in the certificate taking into account any projected change in the number of enplanements during the period covered thereby. In addition, for the purposes of paragraphs (b) and (c) above, projected interest earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place and scheduled to remain in place through the fiscal year for which such projection is made or, if and to the extent that such a rate of interest does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2½%) per annum.

The term "Maximum Adjusted Annual Debt Service" is defined in the PFC Trust Agreement. See also "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS – Pledged Revenue" herein. For the purpose of the calculations required by such certificate the scheduled debt service on PFC Bonds shall be adjusted as and to the extent provided in the definition of "Debt Service" set forth in the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions."

The foregoing requirements need not be satisfied with respect to Additional Parity Bonds issued to refund other PFC Bonds so long as the Average Annual Debt Service on such refunding Additional Parity Bonds is not greater than the Average Annual Debt Service on the PFC Bonds to be refunded, provided that the refunding Additional Parity Bonds may mature later than the refunded PFC Bonds, or with respect to Additional Parity Bonds used to finance costs of completing an Approved Project in an amount not exceeding 15% of the aggregate principal amount of PFC Bonds previously used to pay the costs of such Approved Project. In addition, the PFC Trust Agreement permits the Authority to issue other indebtedness secured by the Pledged Revenue, including but not limited to Subordinate Lien PFC Obligations, bond anticipation notes and interest rate swap agreements, without meeting such requirements. See "Summary of Certain Provisions of the PFC Trust Agreement – Conditions Precedent to Delivery of a Series of First Lien PFC Bonds," "– Conditions Precedent to Delivery of Refunding PFC Bonds" and "– Bond Anticipation Notes" in APPENDIX D.

Consequences of Events of Default

Upon an Event of Default under the PFC Trust Agreement, the stated maturity of the PFC Bonds is not subject to acceleration. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Events

of Default." Under current law the Authority is not authorized to seek protection from creditors under Chapter 9 of the federal Bankruptcy Code.

One Event of Default under the PFC Trust Agreement would be a failure of the Authority to observe or perform any covenant under the PFC Trust Agreement which continues for a period of 90 days and which violates the PFC Act, the Noise Act, the PFC Authority or the PFC Regulations so as to result in a termination or reduction in the Authority's authority to impose or to impose and use PFCs included in the PFC Pledged Revenue. In and pursuant to the FAA Approvals, the FAA has agreed to permit the Authority, notwithstanding any such termination or reduction, except for a violation of the Noise Act, to continue to impose PFCs to the extent necessary to defease or to redeem by optional redemption the 1999 PFC Bonds issued with respect to completed projects financed by the 1999 PFC Bonds or, in certain circumstances, portions thereof as to which a completion certificate has been provided by the Authority to the FAA. The PFC Trust Agreement provides that the proceeds of such PFCs collected after receipt of an FAA Notice will be allocated first to the payment of the outstanding Series of PFC Bonds the proceeds of which have been fully expended on Approved Projects or portions thereof for which such certificates of completion have been rendered. See "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM."

Permitted Investments

Moneys held for the credit of the Funds and Accounts established under the PFC Trust Agreement may, with certain exceptions, be invested only in "Investment Securities" as defined in the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Definitions."

Modifications to the PFC Trust Agreement

The provisions in the PFC Trust Agreement are subject to modification in certain cases without the consent of the holders of the PFC Bonds and in other cases if and when approved by the holders of the requisite percentages of the PFC Bonds outstanding, or in certain cases relating to the 2007 PFC Bonds by the Bond Insurer. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Supplemental Agreements," "– Amendments," "– Modifications by Unanimous Consent" and "– Provisions Relating to Bond Insurance."

Rights of the Bond Insurer

Purchasers of 2007 PFC Bonds are advised that the Second Supplemental Agreement provides certain rights to the Bond Insurer, including without limitation the following:

The Bond Insurer shall be deemed to be the <u>sole</u> holder of the Insured Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Bonds are entitled to take pursuant to the PFC Trust Agreement, including without limitation actions pertaining to defaults and remedies and pertaining to the Trustee; provided, however, that the consent of the owners of the Insured Bonds shall be necessary for any amendment that would change the rate of interest or premium payable with respect thereto or the times of payment of interest, principal or premium with respect to the Insured Bonds. The Trustee shall take no action with respect to the Insured Bonds except with the consent, or at the direction, of the Bond Insurer.

No modification, amendment or supplement to the PFC Trust Agreement or the PFC Continuing Disclosure Agreement relating to or affecting the Insured Bonds, the owners thereof or the Bond Insurer may become effective except upon obtaining the prior written consent of the Bond Insurer; provided, without limitation, that it is understood that such consent of the Bond Insurer shall not be required (i) with respect to any amendment permitted without the consent of Bondholders as provided in the PFC Trust Agreement (except with respect to certain amendments of the definition of "*Investment Securities*") or (ii) to the extent that a Supplemental Agreement provides for the issuance of an additional Series of PFC Bonds in accordance with the terms of the PFC Trust Agreement.

Rights of the Bond Insurer to direct or consent to Authority, Trustee or Bondholder actions under the PFC Trust Agreement shall be suspended during any period in which the Bond Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) and shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Bond Insurer asserts that the Bond Insurance Policy is not in effect or the Bond Insurer shall have provided written notice that it waives such rights.

The rights granted to the Bond Insurer to request, consent to or direct any action with respect to the PFC Trust Agreement and the PFC Continuing Disclosure Agreement are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the owners of the Insured Bonds.

See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Provisions Relating to Bond Insurance."

PASSENGER FACILITY CHARGES

The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the "*1990 Act*") allows public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge each eligible enplaning passenger using the airport a Passenger Facility Charge (a "*PFC*"). The Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) ("*AIR 21*," and together with the 1990 Act, the "*PFC Enabling Acts*") allow a passenger PFC up to a maximum of $4.50. Public agencies wishing to impose and use these PFCs must apply to the FAA for such authority and meet certain requirements indicated in the legislation and regulations issued by the FAA.

The purpose of the PFC is to develop additional capital funding sources to provide for the expansion and improvements of the national airport system. The proceeds from PFCs must be used to finance eligible airport-related projects that preserve or enhance safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Eligible airport-related projects include airport development or planning, improvements to runways and taxiways, terminal development, airport noise compatibility measures and planning and construction of gates and related areas (other than restaurants, rental car facilities, automobile parking or other concessions) for the movement of passengers and baggage.

An airport operator must obtain the FAA's approval before imposing and using the proceeds of PFCs. FAA approval may be for "impose only" authority, "impose-and-use" authority or "use" authority. Projects for which "impose-and-use" authority is granted must be implemented within two years after approval of the use of the PFCs. Implementation means that a notice to proceed has been issued by the airport operator to a contractor, in the case of a construction project. Impose-only authority permits the airport operator to charge PFCs for approved projects but requires another application for authority to use such PFC revenues. Projects for which impose-only authority is granted must be implemented within five years after the effective date of such authority, and a use application must be submitted within three years after the effective date of the implementation. As described under "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM" herein, the FAA has granted the Authority impose-and-use authority for the projects to be financed with the 2007 PFC Bonds and for other PFC-approved projects.

PFCs are collected on behalf of airports by air carriers, certain foreign air carriers and their agents ("*Collecting Carriers*"). PFCs may not be collected, however, from a passenger enplaning at the airport if the passenger did not pay for the ticket (i.e., if the passenger obtained the ticket without monetary payment) or from a passenger flying on an essential air-service route. A PFC may be collected from a passenger (i) on a one-way trip, only for the first two enplaning airports on the travel itinerary where PFCs are imposed and (ii) on a round-trip, only for the first two and the last two enplaning airports where PFCs are imposed.

Without approval of the FAA, but with written notice to the Collecting Carriers and to the FAA, the level of the PFCs charged or the total amount of approved PFC revenue for an approved project may be decreased or the total amount of PFC revenue authorized in the FAA Approvals to be collected for an approved project may be increased by an amount not exceeding 25% of the amount of PFC revenue approved in such FAA Approval. Increases in excess of 25% for an approved project may not be instituted without the FAA's approval.

BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM

On April 23, 1993, the Authority submitted an application (the "*1993 PFC Application*") to the FAA for authority to impose and use a $3.00 PFC at the Airport. On August 24, 1993, the FAA published its 1993 Approval regarding the 1993 PFC Application. Pursuant to the 1993 Approval, the net amount approved for PFC collection was $598.8 million, with a projected PFC charge expiration date of October 1, 2011.

On September 19, 1996, the Authority submitted an application (the "*1996 PFC Application*") to the FAA for authority to use PFCs and impose and use a PFC at the Airport. Along with the 1996 PFC Application, the Authority submitted a concurrent application to amend its 1993 PFC Application (the "*1993 PFC Program Amendment*"). On January 27, 1997, the FAA published its 1997 Approval regarding the 1996 PFC Application and the 1993 PFC Program Amendment. Pursuant to the 1997 Approval, the net amount approved for PFC collection was $631.8 million, with a projected PFC charge expiration date of September 1, 2012.

On September 26, 1997, the Authority submitted an application (the "*1997 PFC Application*") to the FAA for authority to use PFCs to fund the PFC-eligible portions of the International Gateway Project. On February 5, 1998, the FAA published its 1998 Approval regarding the 1997 PFC Application. Pursuant to the 1998 Approval, the net amount approved for PFC collection was $927.4 million, with a projected PFC charge expiration date of October 1, 2017.

On July 29, 2005, the Authority submitted an application (the "*2005 PFC Application Amendment*") to the FAA for authority to impose and use a $4.50 PFC at the Airport and to amend the PFC use amounts for the PFC-eligible portions of the International Gateway Project and other PFC-approved projects. On September 2, 2005, the FAA published its 2005 Approval regarding the 2005 PFC Application Amendment. Pursuant to the 2005 Approval, the FAA authorized the Authority to impose and use a $4.50 PFC at the Airport effective October 1, 2005. The net amount approved for PFC collection was $865.1 million, with a projected PFC charge expiration date of February 1, 2011.

On December 6, 2005, the Authority submitted an application (the "*2006 PFC Application*") to the FAA for authority to impose and use a $4.50 PFC at the Airport for additional capital projects. On April 20, 2006, the FAA published its 2006 Approval regarding the 2006 PFC Application. Pursuant to the 2006 Approval, the FAA extended the Authority's ability to impose a $4.50 PFC at the Airport. Under the 2006 Approval, the net amount approved for PFC collection was $995.0 million, with a projected PFC charge expiration date of February 1, 2016. This amount is included in measuring compliance with the First Lien Sufficiency Covenant. See "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS – First Lien Sufficiency Covenant" and APPENDIX C – Review of PFC Revenue Forecasts.

Collection of Passenger Facility Charges; Collection Fee

PFCs are collected by the Collecting Carriers on behalf of an airport operator from each eligible enplaning passenger at such airport operator's commercial airport. The Collecting Carriers are authorized to withhold, as a collection fee (i) eleven cents per eligible enplaning passenger from whom a PFC is collected and (ii) any investment income earned on the amount collected prior to the due date of the remittance. From time to time, the FAA considers permitting an increase in the amount the Collecting Carriers may retain as a collection fee.

Passenger Facility Charge Collections and Expenditures

The Authority has accounting and management procedures to maximize PFC collections. Under the Authority's PFC collection procedures, the Collecting Carriers remit PFC payments directly to the Authority by check, wire transfer, or Automated Clearing House ("*ACH*") to a Trustee lock box bank account.

For Collecting Carriers that are subject to a written air carrier operating agreement with the Authority, the Authority will issue a written notification of non-payment to such Collecting Carriers if PFC payments are not received within ten days after the date such Collecting Carrier's PFCs are due. The Authority will charge a late payment fee at a rate of 18% per annum, retroactive to the date the PFC remittance was due, at its discretion.

If the PFC payment has not been received within 45 days of the due date the Authority will send a Notice of Default by mail to the Collecting Carrier and will also send a copy of that notification to the FAA.

On a quarterly schedule the Authority compares the amount of PFCs remitted with the quarterly enplanement figures provided by the Collecting Carriers. The Authority compiles and sends a PFC report to the FAA and to the Collecting Carriers each quarter. As required by the FAA, the Authority requests annual audit reports from Collecting Carriers carrying more than 50,000 eligible enplaning passengers. The Authority's independent accountants annually report on PFC compliance. From fiscal year 1994 through fiscal year 2006 there were no material delinquencies for the PFC payments. With respect to a Collecting Carrier operating at the Airport that is involved in bankruptcy proceedings, it is unclear whether the Authority would be afforded the status of a secured creditor with regard to PFCs collected or accrued by the Collecting Carrier.

According to the PFC legislation, as amended, a Collecting Carrier operating at the Airport that is the subject of a bankruptcy proceeding after December 12, 2003 ("*Covered Air Carrier*"), may not commingle PFCs with its other revenue and must maintain a separate segregated account with revenue equal to its average monthly PFC collections. If a Covered Air Carrier fails to segregate its PFCs, the trust fund status of the PFCs is not lost because of any inability to identify and trace them in the Covered Air Carrier's commingled accounts. In addition, a Covered Air Carrier may not grant a security interest in its PFCs to any third party. All Collecting Carriers are required to disclose in their financial statements both the existence and the amount of its PFCs as trust funds, in which it holds no pledgeable interest.

For more information on the Authority's historical collections and expenditures, see the table entitled "Historical PFC Revenues and Debt Service Coverage Under the PFC Trust Agreement Showing PFC Pledged Revenues Attributable to the First $3.00 of PFCs Collected from Each Eligible Passenger" on page 40.

Termination of the Authority's Ability to Impose and Use Passenger Facility Charges

The FAA may terminate the Authority's ability to impose PFCs, subject to informal and formal procedural safeguards, if the FAA determines that (i) the Authority is in violation of certain provisions of the Airport Noise and Capacity Act of 1990 (the "*Noise Act*") relating to airport noise and access restrictions, (ii) PFC collections and investment income thereon are not being used for PFC-approved projects in accordance with the FAA's regulations, (iii) implementation of the PFC-approved projects does not commence within the time periods specified in the FAA's regulations or (iv) the Authority is otherwise in violation of the FAA's regulations, the PFC Enabling Acts, or the FAA Approvals.

Formal Termination Process for PFC Enabling Acts Violations

Pursuant to the FAA's regulations, the formal termination process for PFC collection is initiated upon the FAA's filing of a notice, followed by a 60-day period during which the Authority may submit further comments and take corrective action. The FAA's regulations provide that if corrective action is not taken as prescribed in the notice, the FAA is required to hold a public hearing at least 30 days after notifying the Authority and publishing a notice of the hearing in the Federal Register. After the public hearing, the Authority would have ten days after receiving notice of the FAA's decision to advise the FAA in writing that it will complete any corrective action prescribed in the FAA's decision within 30 days or to provide the FAA with a list of Collecting Carriers, after which the FAA would notify the Collecting Carriers to terminate or to modify the PFC collection accordingly.

Noise Act Violations

The Authority's ability to impose PFCs may be terminated if the Authority violates the provisions of the Noise Act. Although the procedures described above do not apply to alleged violations of the Noise Act, the Noise Act and FAA regulations thereunder provide procedural safeguards to ensure that the Authority's ability to impose PFCs at the Airport will not be summarily terminated because of violations of the Noise Act. In general, the Authority can prevent termination of its PFC authority by suspending the effectiveness of any noise or access restriction in question, until the legal sufficiency of the restriction, and its impact on the Authority's ability to impose PFCs at the Airport, has been determined. The Authority is not aware that it has ever violated the Noise Act and the Authority has covenanted in the PFC Trust Agreement that the Authority will comply with the Noise Act as long as any PFC Bonds remain Outstanding.

2007 PFC Bond Projects

Runway 14/32 and Associated Taxiways. The project involves construction of a new 5,000-foot unidirectional runway designated Runway 14/32 and the connecting taxiways that are located in the southern portion of the Airport, with additional 1,000 foot safety areas at each end. Only departing aircraft use Runway 14 and only arriving aircraft use Runway 32. Construction includes the installation of the required signage and lighting and electrical equipment to support these facilities. The project also includes the acquisition of the remaining term of the leasehold held by the ground tenant that constructed and owns Cargo Building No. 60, which is located within the alignment of Runway 14/32, relocation of the occupants of Cargo Building No. 60, demolition of two cargo buildings in the South Cargo Area, replacement of aircraft parking apron displaced by Runway 14/32, and allowances for environmental permitting. Runway 14/32 was commissioned in November 2006 and is in use.

Runway 14/32 and its associated taxiways, which link the runway to the airfield's previously existing taxiway system, were designed to separate turboprop and regional jet aircraft operations from larger jets in order to alleviate the reduction in normal airfield capacity that occurs under certain wind and weather conditions. Due to the Airport's geographic location, weather and prevailing wind patterns, and a high level of regional carrier operations, the Airport historically has ranked among the lowest performing major U.S. airports in aircraft operational delay. Runway 14/32 has alleviated a portion of the Airport's congestion. The runway has a generally east-west orientation along the southern portion of the Airport and is utilized uni-directionally for landings over water from east to west, and takeoffs over water from west to east.

On April 16, 2004, the FAA issued a Letter of Intent (the "*LOI*") to fund 75% of the eligible costs of Runway 14/32, the Southwest Taxiway (which is also a 2007-B PFC Bond Project) and the extension of Taxiway D with a combination of AIP entitlement and discretionary funds. In the 2006 Approval the FAA approved the use of PFCs to match the AIP grants. The 2007-B PFC Bonds and the Authority's revenue bonds are being used to finance the PFC-funded portion of this project. See "Funding Sources – Federal Grants" and "Funding Sources – PFCs" below. Approximately $8.1 million of costs that are ineligible for grants and PFCs will be funded with the 2007-A Bonds. The approved total project budget for Runway 14/32 is $99.7 million. However, due to lower than expected construction costs, the Authority believes that the final cost of the project will not exceed $87.5 million, of which $75.7 million or 87% was expended through December 31, 2006.

Southwest Taxiway, Infield and Taxiway K Improvements. This project includes the reconfiguration of the Southwest Corner taxiways and the installation of all lighting, marking, signage and drainage to support these improvements, infield improvements, and the rehabilitation of a portion of Taxiway K. The infield improvements will improve taxiway navigation by removing a section of pavement not meant for air traffic and replacing it with turf. Taxiway K improvements include rehabilitation of various sections of fatigued pavement on Taxiway K. Notice to proceed for this project was issued in April 2007, and work is expected to be completed in April 2008.

The reconfiguration of the Southwest Corner Taxiways was recommended in the *Runway Incursion Mitigation Plan* prepared in 1993 through a coordinated effort by the FAA and the Authority. By reducing the complexity of these intersections, it will be easier for (1) ground controllers to control traffic at these intersections and (2) pilots to maintain situational awareness as they approach the crossing points. These taxiway improvements

will also facilitate clearer marking and lighting near the runway-taxiway intersections, further reducing the potential for runway incursions.

On April 16, 2004, the FAA issued a Letter of Intent to partially fund the Southwest Taxiway project with AIP funds. The 2007-B PFC Bonds will be used to fund the PFC, grant-match portion, and $709,000 of the Authority's funds will be used to fund the ineligible project cost balance of these elements. The 2007-B PFC Bonds will be used to fund the infield improvements and the work on Taxiway K as these elements were not included in the Letter of Intent.

The Southwest Taxiway project is expected to ease aircraft operational delays. The Southwest Taxiway project and associated lighting, signage and drainage improvements received their environmental approval at the same time as Runway 14/32. The approved project budget for the Southwest Taxiway project is $25.3 million of which $2.0 million has been spent as of December 31, 2006.

Runway 4L/22R and 4R/22L Improvements. The overlay of Runway 4L/22 portion of this project includes the milling of approximately six to twelve inches of the existing bituminous concrete pavement and inlaying with new pavement, spall repair, crack sealing, restoring of the crown, milling and repaving with a bituminous overlay, adjustment to the in-pavement lighting and catch basin structures and remarking of the newly paved surface. As part of the 4L overlay, the FAA required the upgrade of the safety area of Runway 22R. The installation of the Engineered Material Arresting System ("*EMAS*") on Runway 4L/22R will help prevent airplane overruns into the harbor.

This project also includes the design and construction of an overlay of Runway 4R and a portion of Runway 22L. It will involve spall repair, crack sealing, restoring of the crown, milling and repaving with a bituminous overlay, adjustment to the in-pavement lighting and catch basin structures, remarking of the newly paved surface and the replacement the centerline lights and touchdown zone lights on Runway 4R including the cans and cable.

All of the construction related to these runway improvement projects was completed by March 2007. The Authority received $8.0 million in grant funding for the overlay of 4L/22R and an additional $2.6 million in grant funds for the 4L/22R EMAS. The balance of this work is being funded with the 2007-B PFC Bonds. The improvements to Runway 4R/22L are entirely funded with the 2007-B PFC Bonds.

Airfield Drainage and Perimeter Road Improvements. This project involves the replacement of airfield drainage outfalls to prevent storm-water backup onto the airfield during storms. The project also includes improvements to the airfield's perimeter road to enhance safety and the movement of emergency and other service vehicles on the airfield. These project components are both fully funded by the 2007-B PFC Bonds. Construction on these projects is expected to begin in June 2007, with completion scheduled for February 2008.

Other Approved PFC Projects

In addition to the 2007 PFC Bond Projects, the FAA has granted the Authority the ability to impose and use PFCs to finance the design and construction of the other Approved Projects described below. The following table shows the projects that will be partially or fully funded by the 2007-B PFC Bonds, as well as the other Approved Projects that were approved by each of the 1997 Approval, the 1998 Approval and the 2006 Approval. A brief description of each of the other Approved Projects is set forth following the table.

APPROVED PFC PROJECTS

Project	Actual/ Budgeted Total Project Cost	Amount Funded by PFC Bonds	Amount Funded by PFC Pay-As-You-Go	Amount Funded by Commercial Paper to be Funded by PFCs	Amount Funded by Grants	Amount Funded by Authority Revenue Bonds and Cash	Actual/ Expected Date of Construction	Actual/ Expected Date of Completion
APPROVED PFC PROJECTS FUNDED WITH THE 2007-B PFC BONDS AND INCLUDED IN THE 2006 APPROVAL								
Runway 14/32 and Associated Taxiways	$87.5 million	$17.4 million	--	--	$52.1 million	$18.0 million	August 2004	December 2006
Southwest Taxiway, Infield and Taxiway K Improvements	$25.3 million	$7.2 million	--	--	$17.6 million	$0.5 million	April 2007	April 2008
Runway 4L/22R and 4R/22L Improvements	$33.8 million	$18.1 million	$5.1 million	--	$10.6 million	--	April 2004	March 2007
Airfield Drainage and Perimeter Road Improvements	$1.2 million	$1.2 million	--	--	--	--	June 2007	February 2008
PFC PROJECTS INCLUDED IN THE 1997 APPROVAL								
Residential Sound Insulation Program - 1999 Contour	$80.2 million	--	$15.3 million	--	$65.6 million	--	March 1991	December 2000
Logan Modernization Preliminary Design and Environmental Approval	$13.3 million	--	$9.5 million	--	--	--	May 1993	December 1997
Terminal E Modernization	$38.9 million	--	$20.9 million	--	--	$13.9 million	July 1995	July 1997
Circulating Roadways	$164.0 million	--	$144.4 million	$19.0 million	--	--	August 1998	July 2006
Elevated Walkways	$110.7 million	--	$110.7 million	--	--	--	April 1997	March 2005
PFC PROJECTS INCLUDED IN THE 1998 APPROVAL								
International Gateway including Terminal E Hold Baggage Screening System	$463.4 million	$223.6 million	$89.3 million	$76.4 million	$9.9 million	$64.2 million	August 1998	July 2007

APPROVED PFC PROJECTS (Cont.)								
Project	**Actual/ Budgeted Total Project Cost**	**Amount Funded by PFC Bonds**	**Amount Funded by PFC Pay-As-You-Go**	**Amount Funded by Commercial Paper to be Funded by PFCs**	**Amount Funded by Grants**	**Amount Funded by Authority Revenue Bonds and Cash**	**Actual/ Expected Date of Construction**	**Actual/ Expected Date of Completion**
ADDITIONAL PFC PROJECTS INCLUDED IN THE 2006 APPROVAL								
Hold Baggage Screening at Terminal C	$45.1 million	--	$6.4 million	--	$38.7 million	--	July 2002	December 2002
Terminal B Security Checkpoint Consolidation	$7.8 million	--	$7.8 million	--	--	--	September 2004	February 2007
Boundary Security Infrastructure	$15.4 million	--	$4.4 million	--	--	$11.0 million	September 2005	February 2008
Access Control	$28.0 million	--	$9.4 million	$15.0 million	$3.3 million	$0.3 million	November 2004	March 2008
Terminals B, C and E Aprons and Alleyways Reconstruction	$13.9 million	--	$13.9 million	--	--	--	July 2005	January 2007
Taxiway D Extension	$13.3 million	--	$3.3 million	--	$10.0 million	--	May 2008	December 2008
Residential Sound Insulation Program - 1998, 2001 and Runway 14-32 Mitigation Contours	$68.2 million	--	$13.6 million	--	$54.6 million	--	July 2001	March 2010
Centerfield Taxiway (1)	$53.5 million	--	$12.8 million	--	$38.6 million	$2.1 million	December 2007	June 2009

(1) Pursuant to the 2006 Approval, the Authority has the authority to collect PFCs for the Centerfield Taxiway project. The Authority received environmental approval for this project on April 20, 2007. The Authority intends to apply for authority to use PFCs for the Centerfield Taxiway project.

PFC Projects Included in the 1997 Approval

The Authority used a total of $45.7 million in PFCs to fund $15.3 million in PFC-eligible costs of the first Residential Sound Insulation contour to receive PFC-use approval, $9.5 million in eligible costs for preliminary design at the beginning of the Airport's Modernization Program and $20.9 million for the PFC-eligible portion of work in Terminal E that preceded the International Gateway project. These projects were all completed by 1997.

The Authority also completed the Circulating Roadways project in 2006. The cost of this project was funded by $135.9 million of PFCs and $19.0 million of commercial paper. Although the Authority's commercial program is secured by non-PFC funds, the Authority intends to repay the commercial paper with PFCs during fiscal year 2009 to 2010. PFCs are also used to pay interest and related financing expenses on the outstanding commercial paper used to fund the Circulating Roadways project.

The Authority completed the Elevated Walkways project in March 2005. The project connects Terminal A to Terminal B, Terminal A to Terminal E through the Central Parking Facility and Terminals B and C to the Central Parking Facility. The walkways are all 100% PFC-eligible. The project expenditures for all of the pedestrian walkways totaled $110.7 million.

PFC Projects Included in the 1998 Approval

The Authority originally received authority to use PFC revenue for the International Gateway project in 1998. The project is currently nearing completion. As of December 31, 2006, the Authority had spent $426.7 million on the International Gateway project (including work related to hold baggage screening for Terminal E). After the project is completed later in 2007, the Authority expects it will have spent $463.4 million and will have used $223.6 million in proceeds from the 1999 PFC Bonds, $89.3 million in PFCs, $76.4 million in commercial paper funds, $9.9 million in grant funding (for the portion related to hold baggage screening) and $64.2 million in bond proceeds sold under the Authority's 1978 Trust Agreement to fund project expenditures. Later in 2007, the Authority expects to sell approximately $10 million in additional commercial paper to fund some of the remaining expenditures on the International Gateway project. As of the date of this Official Statement, there is a total principal amount of $69 million in commercial paper outstanding the proceeds of which have funded International Gateway project expenditures and interest expense and related financing fees on the commercial paper. As mentioned above, the Authority's commercial program is secured by non-PFC funds. The Authority currently expects to repay the commercial paper with PFCs during the fiscal year 2011 to 2017 period. PFCs also will be used to pay interest and related financing expenses on the outstanding commercial paper during this time period.

Additional PFC Projects Included in the 2006 Approval

In addition to the PFC-approved projects mentioned above, the Authority received approval to use PFCs to fund four security projects and an additional four airfield projects in the 2006 Approval. Construction is complete on two of the security projects: Hold Baggage Screening in Terminal C and Terminal B Security Checkpoint Consolidation. Construction is expected to be completed next year on the Boundary Security Infrastructure project, which consists of the installation of bollards in the terminal area and improvements to the Air Operations Area wall around the airfield, and the Access Control project which involves protecting secure areas of the terminal buildings and other restricted areas from unauthorized intrusion. Of the $96.3 million in total costs for these four security projects, $43 million is expected to be funded with PFCs (either by cash or commercial paper), while $42 million is expected to be grant funded. The balance of $11.3 million will be funded by the Authority's revenue bonds or internally-generated cash. By funding $85 million of the $96.3 million in total costs through the use of PFCs and grants, the Authority is able to limit the impact of these projects on airline rates and charges.

Construction is complete on the Terminal B, C and E Aprons and Alleyways Reconstruction project, which is being funded entirely with PFCs. Taxiway D Extension was permitted with Runway 14/32 and the Southwest Taxiway project, and was approved for grant funding in the FAA's LOI along with those projects. The Authority plans to fund the grant match portion with PFCs, and construction is expected to take place during 2008.

The other airfield project for which the Authority has received approval to use PFCs is the Residential Sound Insulation projects related to the 1998 and 2001 noise contours at Logan Airport and the Runway 14/32

Mitigation Contour. Sound insulation relating to the 1998 and 2001 contours is expected to be completed by 2008, while the work on the sound insulation related to the Runway 14/32 Mitigation contour is expected to end in 2010. The Authority has been awarded sufficient grants to fund 80% of the sound insulation work, while the balance will be funded with PFCs.

The Authority received environmental approval for the Centerfield Taxiway on April 20, 2007. The Authority expects to begin the process of applying for grant funds from the FAA and to begin the process of applying for PFC use authority for the project later in 2007.

For a further description of the Authority's capital program, please see "CAPITAL PROGRAM" herein.

The following table shows the total PFC funding authorized in the FAA Approvals. The figures in the table combine the approved PFC-eligible costs of design and construction along with the forecast financing costs for those projects that have required PFC bond funding or funding with commercial paper.

BOSTON-LOGAN INTERNATIONAL AIRPORT FAA APPROVED PFC PROGRAM
(in thousands)

Projects	**FAA Approved PFC Use Amount**
APPROVED PFC PROJECTS FUNDED WITH THE 2007-B PFC BONDS AND INCLUDED IN THE 2006 APPROVAL	
Runway 14/32 and Associated Taxiways	$ 31,240
Southwest Taxiway, Infield and Taxiway K Improvements	7,701
Runway Improvements to 4L/22R and 4R/22L	32,210
Airfield Drainage and Perimeter Road Improvements	1,647
PFC PROJECTS INCLUDED IN THE 1997 APPROVAL	
Residential Sound Insulation Program - 1999 Contour	15,323
Logan Modernization Preliminary Design and Environmental Approval	9,514
Terminal E Modernization	20,892
Circulating Roadways	172,655
Elevated Walkways	112,298
PFC PROJECTS INCLUDED IN THE 1998 APPROVAL	
International Gateway	483,631
ADDITIONAL PFC PROJECTS INCLUDED IN THE 2006 APPROVAL	
Terminals B, C and E Aprons and Alleyways Reconstruction	13,933
Hold Baggage Screening at Terminal C	10,231
Terminal B Security Checkpoint Consolidation	8,354
Boundary Security Infrastructure	3,720
Access Control	26,434
Taxiway D Extension	3,542
Residential Sound Insulation Program - 1998, 2001 and Runway 14-32 Mitigation Contours	13,790
Centerfield Taxiway (1)	0
Total (2)	$967,115
(1) The Authority expects to apply for PFC use approval for the Centerfield Taxiway project later in 2007. The Authority currently has authority to collect $12.8 million for this project.	
(2) This total does not include $15.1 million in other project costs included in the 2006 Approval, but which the Authority does not expect to use at this time.	

PLAN OF FINANCE

The Authority's plan of finance for its PFC Program consists of the use of proceeds of the 2007-B PFC Bonds, revenue anticipation notes issued in the form of commercial paper, and pay-as-you-go PFCs available after provision for debt service on PFC Bonds. As described above, several components of the PFC Program have been completed, while others are under construction and some will be constructed over the next few years. The 2007-B PFC Bonds are being issued to finance the PFC-eligible costs of the design and construction of Runway 14/32 and Associated Taxiways, Southwest Taxiway, Infield and Taxiway K Improvements, Runway 4L/22R and 4R/22L Improvements and Airfield Drainage and Perimeter Road Improvements, as described above.

In addition, the 2007-D PFC Bonds are being issued to advance refund certain of the Authority's previously issued PFC Bonds. Proceeds of the 2007-D PFC Bonds will be deposited into the PFC Refunding Escrow Fund established under a Refunding Escrow Agreement (the "*PFC Refunding Escrow Agreement*") to be entered into between the Authority and the Trustee in an amount that, together with certain amounts available under the PFC Trust Agreement, will provide for the payment of the redemption price of and interest on the Refunded PFC Bonds on the first available optional redemption dates and at the redemption prices set forth below. Upon the funding of the PFC Refunding Escrow Fund and the satisfaction of certain conditions relating thereto specified in the PFC Trust Agreement, the Refunded PFC Bonds will be legally defeased pursuant to the PFC Trust Agreement. See APPENDIX D – Summary of Certain Provisions of the PFC Trust Agreement – "Defeasance." The refunding is contingent upon delivery of the 2007-D PFC Bonds.

Funds deposited in the PFC Refunding Escrow Fund will be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America ("*Escrow Government Obligations*") and to funding, if needed, a cash deposit in such account. The maturing principal of and interest on the Escrow Government Obligations, plus any initial cash deposit, held under the PFC Refunding Escrow Agreement will be held in the PFC Refunding Escrow Fund and applied solely for the payment of the principal of and redemption premium and accrued interest on the Refunded PFC Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein, the Escrow Government Obligations held under the PFC Refunding Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to pay the principal of and redemption premium, if any, and accrued interest on the Refunded PFC Bonds to and including their respective redemption dates, each as set forth below. Any amounts remaining in the PFC Refunding Escrow Fund after the payment of the Refunded PFC Bonds shall be remitted to the Authority and applied as the Authority shall direct.

Refunded PFC Bonds

Series	Original Maturity July 1	Amount to be Refunded	Redemption Date	Redemption Price
1999-A	2015	$ 5,120,000	07/01/09	101.0%
1999-A	2016	18,335,000	07/01/09	101.0
1999-A	2017	44,210,000	07/01/09	101.0

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds in connection with the issuance of the 2007 PFC Bonds are summarized below:

Sources of Funds

Principal of the 2007-B PFC Bonds	$48,480,000.00
Principal of the 2007-D PFC Bonds	65,130,000.00
Amounts Available Under the PFC Trust Agreement	1,469,740.10
Plus: Net Original Issue Premium	6,160,281.30
Total	$121,240,021.40

Use of Funds

Deposit to Project Fund for 2007-B PFC Bonds	$43,979,000.00
Deposit to PFC Refunding Escrow Fund	71,177,343.88
Deposit to Debt Service Reserve Fund	4,501,500.00
Costs of Issuance (including Bond Insurance Premium)	1,067,251.30
Underwriters' Discount	514,926.22
Total	$121,240,021.40

THE AUTHORITY

Powers and Facilities

Under the Enabling Act, the Authority has general power, *inter alia* (a) to issue its revenue bonds and to borrow money in anticipation thereof, (b) to fix, revise, charge and collect tolls, rates, fees, rentals and charges for use of the Projects, (c) to maintain, repair and operate and to extend, enlarge and improve the Projects, and (d) to construct or acquire Additional Facilities within the Commonwealth when authorized by the Legislature of the Commonwealth. The Authority has the power to acquire property by purchase or through the exercise of the right of eminent domain in certain circumstances. The Authority has no taxing power.

The Authority's facilities include the "*Airport Properties*," consisting of the Airport and Hanscom Field; the Bridge; and the "*Port Properties*," consisting of Moran Terminal, Hoosac Pier (site of Constitution Plaza), Mystic Piers 1, 48, 49 and 50 and the Medford Street Terminal, all of which are located in Charlestown; Conley Terminal, the North Jetty and Fargo Street Terminals, the former Army Base (including Black Falcon Cruise Terminal), the Boston Fish Pier, Commonwealth Pier (site of World Trade Center Boston), and a portion of Commonwealth Flats, all of which are located in South Boston; and the East Boston Piers and the Boston Marine Works, both located in East Boston. On January 15, 2000, the Authority also assumed operating responsibility for Worcester Regional Airport pursuant to an operating agreement (the "*Worcester OA*") among the Authority, the City of Worcester, Massachusetts and the Worcester Airport Commission. The Worcester OA was amended in 2004 to extend the term of the agreement through June 30, 2007. The Authority and the City of Worcester are currently engaged in negotiations concerning a new agreement.

Members and Management

The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. Pursuant to legislation enacted in 2004, effective July 1, 2007, the secretary of transportation of the Commonwealth will serve as a Member of the Authority. Four Members of the Authority constitute a quorum and the affirmative vote of four Members is necessary for any action taken by the Authority. With the exception of the secretary of transportation, the Members are appointed for staggered seven-year terms. Members completing a term in office are eligible for reappointment and remain in office until their successors are appointed, except that any Member appointed to fill a vacancy shall serve only for the unexpired term. The Members of the Authority serve without compensation, although they are reimbursed for expenses they incur in carrying out their duties.

The Chairman of the Authority is currently appointed by the Governor. Pursuant to the legislation referenced above, as of July 1, 2007, the Chairman will be elected annually by the Members. The Members also annually elect a Vice Chairman and a Secretary-Treasurer (who need not be a Member of the Authority), both of whom serve at the pleasure of the Members. The present Members of the Authority and the expiration dates of their terms are as follows:

Members of the Authority	**Expiration of Term**
John A. Quelch, Chairman Senior Associate Dean, Harvard Business School	2009
John F. Monahan, Jr., Vice Chairman Retired; former CEO of Telephone Workers Credit Union	2007
Lois J. Catanzaro Director of Public Affairs, Clear Channel Outdoor	2008
Paul D. Foster Vice President of Trade, Community and Governmental Relations, Reebok Corporation	2010
Ranch C. Kimball President and Chief Executive Officer, Joslin Diabetes Center	2011
Paul J. McNally Business Manager, Massachusetts Laborers' District Council	2012
Frederic Mulligan President, Cutler Associates, Inc.	2013

The management of the Authority and its operations is carried out by a staff headed by the Chief Executive Officer and Executive Director, who is appointed by and reports directly to the Members of the Authority.

The Authority has three operating Departments – Aviation, Maritime and Bridge – each of which is charged with profit and loss responsibility. The staff members overseeing the operation of the Authority's facilities are charged with balancing financial performance with operational demands, customer service and community impacts, as well as forecasting the implications of any proposed capital programs or operating initiatives, and for the collection of accounts receivable.

The senior staff of the Authority currently includes the following persons, who are each aided by administrative, operating and maintenance personnel:

Thomas J. Kinton, Jr., Chief Executive Officer and Executive Director, was appointed to this position in August 2006, and has overall responsibility for the management of the Authority and its facilities. Mr. Kinton served as the Authority's Acting CEO in July 2006, a position he previously held from November 2001 until April 2002. Mr. Kinton has been employed by the Authority since 1976 and has held the positions of Director of Operations and Manager of Airport Facilities. He was named Director of Aviation in 1993 and was responsible for all activities and operations of Boston Logan International Airport, Hanscom Field and Worcester Regional Airport. Mr. Kinton was named Airport Director of the Year by <u>Airport Revenue News</u> in 2005. He holds a B.S. in Civil Engineering from Merrimack College.

George K. Hertz, Chief of Staff, was appointed in April 2007. Previously he served as the Executive Vice President of the Authority from 2002 through 2006. Prior to joining the Authority, Mr. Hertz had over 20 years of executive level private sector business experience, including serving as Managing Director and Senior Vice President of the Business Services Group of Fidelity Capital. From 1979-82 he was the State Budget Director for the Commonwealth. Mr. Hertz holds both an M.A. in Public Administration and a B.A. from the University of Massachusetts, Amherst.

John P. Pranckevicius, Director of Administration and Finance and Secretary-Treasurer, joined the Authority in May 2007. He oversees the Authority's financial responsibilities including treasury, budgeting,

accounting, debt and investment management and administration, and serves as Treasurer-Custodian of the Massachusetts Port Authority Employees' Retirement System. Prior to joining the Authority, he served as the Chief Financial Officer for the City of Worcester, Massachusetts. Mr. Pranckevicius is licensed in the Commonwealth as a Certified Public Accountant, and holds a B.A. degree and a Masters in Public Administration from the University of Maine and a M.S. in Accountancy from Bentley College.

Michael G. Ellis, Comptroller, joined the Authority in 2006 and is responsible for coordinating all accounting activities throughout the Authority and administering the Authority's internal controls and financial reporting efforts. Prior to joining the Authority, Mr. Ellis had over 15 years of private sector business experience, most recently as the Chief Financial Officer for Eze Castle Software, Inc. Prior to that he was a Director within the Pricewaterhouse Coopers, LLP mergers and acquisition practice group. Mr. Ellis was licensed in the Commonwealth as a Certified Public Accountant, and holds B.A., *cum laude,* degrees in Accounting and Politics & Government from Ohio Wesleyan University.

Edward C. Freni, Director of Aviation, joined the Aviation Division of the Authority in 2000 as the Deputy Director of Aviation Operations at Logan, Hanscom and Worcester airports and was appointed to his current position in 2007. He is responsible for administering, coordinating and managing all airside and landside activities and operations at all three airports. Prior to joining the Authority, Mr. Freni worked for 23 years at American Airlines. He holds a B.S. degree from the University of New Hampshire.

Michael A. Leone, Port Director, joined the Authority in 1993 as Senior Legal Counsel Maritime. Mr. Leone was named Port Director in 1998. Prior to joining the Authority, Mr. Leone served for 22 years with the United States Coast Guard. Mr. Leone is a graduate of the United States Coast Guard Academy and George Washington University School of Law.

David S. Mackey, Chief Legal Counsel, joined the Authority as Chief Legal Counsel in April 2001. Formerly First Assistant United States Attorney and Chief of the Civil Division of the U.S. Attorney's Office for the District of Massachusetts, Mr. Mackey was also a partner at Goodwin, Procter and Hoar. He holds a B.A., *summa cum laude*, from Amherst College and a J.D., *cum laude*, from Harvard Law School.

Brian R. McMorrow, Deputy Director of Administration and Finance, rejoined the Authority in December 1995 and was appointed to his current position in September 1998. He is responsible for business and financial analysis including budget and management reporting. Mr. McMorrow previously worked for the Commonwealth, the Authority and Yankee Atomic Electrical Company in various capital facility, planning and development roles. Mr. McMorrow holds a B.S. degree in Civil Engineering from the University of Massachusetts and a M.S. Degree in Engineering Management from Northeastern University's School of Industrial Engineering.

Mary Jane O'Meara, Director of Tobin Memorial Bridge, joined the Authority in 1988 as Operations Manager of the Bridge and is responsible for the safe and efficient operation and management of the Bridge. She previously was employed by the Massachusetts Bay Transportation Authority, where she worked as Chief Railroad Services Officer and Assistant Project Manager in the Construction Directorate. She holds a B.A. degree from the University of Massachusetts.

Lowell L. Richards, III, Chief Development Officer, joined the Authority in May 1999. Previously, he was Assistant Secretary for Capital Resources and Chief Development Officer in the Executive Office of Administration and Finance of the Commonwealth. Prior to that he was a senior finance officer in Cabot, Cabot & Forbes, a Boston-based commercial real estate development company, and Deputy Mayor for Fiscal Affairs and Collector-Treasurer in the City of Boston. He holds a B.A. from Dartmouth College, a Master of City Planning degree from the Massachusetts Institute of Technology and a J.D. from Harvard Law School.

Houssam H. Sleiman, Director of Capital Programs and Environmental Affairs, joined the Authority in October 1993 and was appointed to his current position in May 2006. He directs the overall management of the Authority's capital investment program, safety program, utilities management, in-house design and environmental permitting and management. He also served as the Authority's Director of Aviation Administration and Development. Prior to joining the Authority, he worked for the Town of Lexington, Massachusetts. He is a licensed registered Professional Engineer in the Commonwealth of Massachusetts. He holds a Master of Science degree in Civil Engineering and a Bachelor of Science degree in Civil Engineering from Northeastern University.

Elizabeth L. Taylor, Director of Finance & Treasury, joined the Authority in 1978, and was appointed to her current position in June 1999. She is responsible for developing and implementing the financial strategy for the Authority's capital program, for structuring the Authority's debt issues, for developing and implementing the investment policy for the Authority's cash and cash equivalents, for managing the Treasury Department and for submitting and monitoring the Airport's PFC applications. Formerly Assistant Budget Director of the University of Massachusetts, she holds an M.B.A. degree from the Stanford Graduate School of Business and a B.A. degree from Oberlin College.

Gail S. Titus, Director of Internal Audit, joined the Authority in August 2000. Reporting directly to the Members of the Authority, she manages the internal audit function to assist senior management in achieving business goals without undue business risk. Previously, she was the Chief Audit Executive for C&S Wholesale. Prior to that, she was with Coopers & Lybrand (now PricewaterhouseCoopers LLP). Ms. Titus is licensed in the Commonwealth as a Certified Public Accountant and holds a B.S., *summa cum laude*, from Western New England College.

Dennis P. Treece, Director of Corporate Security, joined the Authority in September 2002. Mr. Treece is responsible for all aspects of security within the Authority. Mr. Treece has 32 years of security-related experience and has provided security services to Global 1000 companies on four continents as well as a wide array of military and Executive Branch clients during his 30 years in Military Intelligence. Retiring from the U.S. Army in 2000 as a full Colonel, he held key intelligence and security related command and staff positions in Europe, the Balkans, the United States, the Middle East and Asia. Mr. Treece holds an M.A. in History from the University of La Verne and a B.S. in Business Administration from Arizona State University. He has also attended the U.S. Army Command and General Staff College and the U.S. Army War College.

BOSTON-LOGAN INTERNATIONAL AIRPORT

The Airport is the principal source of the Authority's Revenues, Operating Expenses and Net Revenues and is the dominant factor in the determination of the Authority's financial condition. The Airport is situated principally in East Boston (with a small portion situated in the Town of Winthrop), approximately three miles from downtown Boston and adjacent to Boston Harbor. The total land area of the Airport is approximately 2,400 acres.

Air Service Region. The Airport serves the greater Boston area and plays the leading role in New England's air service infrastructure. Based upon information provided by the United States Department of Transportation ("*DOT*") and Airport traffic statistics for fiscal year 2006, approximately 88% of total domestic and international passengers at the Airport begin or end their air travel ("*origin-destination*" travel) at Logan Airport. See APPENDIX B – Boston-Logan International Airport Market Analysis.

The high percentage of origin-destination passengers in both the business and leisure markets is in contrast to many other major airports which are used in large part by airlines as connecting hubs for passengers en route to another point as their final destination. As a result of this traffic base, overall activity levels at Logan Airport are less vulnerable to significant fluctuations in connecting traffic resulting from route restructuring by individual airlines or other factors affecting particular airlines. Rather, Airport activity levels tend to reflect general economic conditions, regional economic and demographic trends and the economics of the airline industry. See APPENDIX B – Boston-Logan International Airport Market Analysis.

The following is based on information developed by SH&E and presented in the Airport Market Analysis contained in APPENDIX B hereto. The greater Boston area has strong wealth and income levels, a diversified economic base and provides strong support for origin-destination traffic at the Airport. Employment in Massachusetts has been growing steadily, increasing from 3.20 million in 2004 to 3.21 million in 2005 to 3.23 million in 2006. In the greater Boston area the professional services and health care industries are growing and together provide 33% of local employment. Technology, biotechnology, health care services, financial services and higher education are some of the leading industrial sectors. The Boston area's per capita income levels in calendar year 2006 is expected to be 32% above the national average and 8.1% above the New England average. In 2004 and 2005, Massachusetts per capita income grew faster than in the U.S. as a whole. The projected growth rates suggest that the Boston economy will continue to grow with income increasing over the next 14 years at a pace slightly above the national average and faster than the last six years. See APPENDIX B – Boston-Logan International Airport Market Analysis.

Airport Traffic Levels. In calendar year 2006, based upon total passenger volume, Logan Airport was the most active airport in New England, the 19th most active in the United States and the 39th most active in the world, according to the Airports Council International ("*ACI*"). The Airport increasingly provides service to long- and mid-range domestic destinations as well as to international destinations.

The following table summarizes Airport operations and passenger traffic statistics for the most recent five fiscal years and the six-month periods ended December 31, 2005 and 2006. Both operations and passengers are grouped by origin and destination regardless of whether the carrier was a U.S. air carrier or a foreign flag carrier.

SELECTED BOSTON-LOGAN INTERNATIONAL AIRPORT TRAFFIC STATISTICS

(fiscal year ended June 30)

	2002	2003	2004	2005	2006	Six Months Ended 12/31/05	Six Months Ended 12/31/06
Aircraft Operations (1)							
Domestic (2)	197,844	190,609	184,836	210,357	206,426	102,798	108,375
International (3)	39,883	39,234	39,799	39,554	36,772	19,053	18,567
Regional (4)	145,749	123,702	132,496	131,074	128,337	70,142	68,191
General Aviation	25,524	27,880	28,890	32,352	31,016	16,712	17,140
Total Operations	409,000	381,425	386,021	413,337	402,551	208,705	212,273
Aircraft Landed Weights	19,872,000	19,576,000	19,864,000	20,822,000	20,376,000	10,333,000	10,378,000
Passengers Traffic							
Domestic (2)							
Enplaned	8,052,257	8,284,960	8,919,352	9,880,689	10,292,917	5,171,084	5,286,348
Deplaned	8,088,769	8,304,108	8,952,770	9,937,869	10,324,060	5,093,122	5,224,175
International (3)							
Enplaned	1,904,246	1,906,562	2,040,079	2,129,374	2,071,481	1,062,513	1,013,258
Deplaned	1,889,185	1,919,516	2,047,766	2,117,983	2,071,740	1,073,035	1,028,664
Regional (4)							
Enplaned	1,069,742	1,058,709	1,276,296	1,371,024	1,297,303	681,230	734,180
Deplaned	1,047,558	1,042,212	1,240,351	1,307,858	1,272,474	666,450	736,811
Subtotal Commercial Passenger Traffic	22,051,757	22,516,067	24,476,614	26,744,797	27,329,975	13,747,434	14,023,436
General Aviation Total Passengers	91,353	92,543	86,154	121,374	116,630	62,846	64,682
Total Passengers	22,143,110	22,608,610	24,562,768	26,866,171	27,446,605	13,809,280	14,088,118
Enplaned Passengers (Excluding general aviation traffic)	11,026,245	11,250,231	12,235,727	13,381,087	13,661,701	6,914,827	7,033,786
Average Passengers Per Flight							
Domestic (2)	81.6	87.0	96.7	94.2	99.9	99.8	97.0
International (3)	95.1	97.5	102.7	107.4	112.7	112.1	110.0
Regional (4)	14.5	17.0	19.0	20.4	20.0	19.2	21.6
Air Carrier and Passenger Metrics							
Primary carrier	Delta	Delta	Delta	Delta	Delta	American	American
Primary carrier market share	19.3%	19.2%	18.0%	16.9%	15.0%	15.5%	14.1%
Two top carriers market share	36.7%	36.6%	35.4%	33.0%	30.0%	30.7%	27.5%
Origination & destination share (5)	87.7% (6)	NA	88.0% (7)	NA	87.7% (8)	NA	NA
Compensatory airline payments to the Authority per enplaned passenger	$8.26	$10.22	$11.42	$11.56	$12.97	$12.63	$13.35
Logan Airport revenue per enplaned passenger	$23.19	$26.33	$27.39	$27.52	$29.03	$28.08	$29.95
Total Cargo & Mail	842,249	817,843	809,179	796,252	759,326	396,889	353,901

(1) Includes all-cargo flights, but excludes helicopters.
(2) Includes domestic flights on jets and charters.
(3) Includes international flights on jets and charters.
(4) Includes domestic flights by commuter carriers that operate smaller jet and turbo-prop aircraft with fewer than 100 seats.
(5) Source: This statistic is estimated in the market study prepared by SH&E included in the Authority's Official Statements. It is calculated only when the Authority issues bonds.
(6) Data for six months ended June 30, 2002.
(7) Data for 12 months ended September 30, 2004.
(8) Data for 12 months ended September 30, 2006.

Source: Authority reports.

Passenger traffic at the Airport totaled 27.4 million passengers for fiscal year 2006, a 2.2% increase from the 26.9 million passengers who used the Airport in the prior year. Passenger traffic increased 8.6% in fiscal year 2004, and 9.4% in fiscal year 2005. For the six-month period ending December 31, 2006, passenger traffic was 2.0% higher than the six-month period ending December 31, 2005. Fiscal year 2006 passenger traffic was within 1% of the peak year, which was fiscal year 2000.

In fiscal year 2006, passenger traffic at Logan Airport was 21.4% greater than fiscal year 2003. Over the same period, aircraft operations grew by 5.5%. The substantial difference between the 21.4% growth in passenger traffic and the 5.5% growth in operations is evidence that the average number of passengers per flight has grown substantially over the period. Over the fiscal year 2003 to 2006 period, landed weights increased 4.1%, a figure consistent with the relatively modest change in aircraft operations.

Landed weights for fiscal year 2006 were 2.1% below fiscal year 2005, and were 0.4% higher in the six-month period ending December 31, 2006 than in the corresponding period a year earlier. Landed weights grew 1.5% in fiscal year 2004, and grew a further 4.8% in 2005. See "AUTHORITY REVENUES – Airport Properties Revenues" and "MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS."

In fiscal year 2006, domestic jet passengers accounted for 75.1% of passenger traffic, or approximately 20.6 million passengers. This segment increased by 4.0% in fiscal year 2006, following increases of 7.7% and 10.9% in fiscal years 2004 and 2005, respectively. From fiscal year 2003 through fiscal year 2006, domestic jet passenger traffic grew 24.3% while its share of total passenger traffic grew from 73.4% to 75.1%.

International passengers, including those traveling on foreign flag and U.S. flag carriers (including U.S. regional carriers) accounted for 15.1% of passenger traffic in fiscal year 2006, or approximately 4.1 million passengers. This segment decreased by 2.5% in fiscal year 2006. Of the 15.1% of passengers traveling internationally, 63.3% traveled to or from Europe and the Middle East, 19.2% to or from Bermuda and the Caribbean, 16.2% to or from Canada and 1.3% to or from Central and South America. From fiscal year 2003 through fiscal year 2006, international passenger traffic grew 8.3% while its share of total passenger traffic declined from 16.9% to 15.1%.

In fiscal year 2006, passengers traveling domestically on regional airlines accounted for approximately 9.4% of total passenger traffic at the Airport, or approximately 2.6 million passengers. The number of regional passengers (excluding passengers traveling internationally) grew by 19.8% and 6.4% in fiscal years 2004 and 2005, respectively, and decreased by 4.1% in fiscal year 2006. From fiscal year 2003 through fiscal year 2006, domestic regional traffic grew 22.5% while its share of total passenger traffic fluctuated between 9.3% and 10.2%.

Airline Passenger Services. As primarily an origin-destination airport, Logan Airport is served today, as it has been in the past, by a wide variety of carriers. As of December 31, 2006, airline service at the Airport, both scheduled and non-scheduled, was provided by 77 airlines, including six U.S. major air carrier airlines, 31 other domestic carriers, 24 non-U.S. flag ("*foreign flag*") carriers and 16 regional and commuter airlines ("*regional airlines*"). The Authority maintains separate statistical data for regional airlines, also known as "*regional carriers*." For purposes of the Authority's data compilation, regional airlines are defined as domestic commuter carriers that operate smaller regional jet and turbo-prop aircraft with fewer than 100 seats. These carriers are generally subsidiaries or affiliates of major domestic carriers.

The relative share of various carriers at the Airport has fluctuated with no individual carrier having a market share of over 20% in any of the past ten years (excluding regional partners). The following chart presents the relative shares of the U.S. air carrier airlines carrying the highest shares of total passenger traffic at the Airport, as well as the relative shares of the regional airlines and foreign flag carriers, during the last five fiscal years and the six-month periods ended December 31, 2005 and 2006. In fiscal year 2006, the two top air carriers, American and Delta Air Lines, carried 30.0% of the total passengers using the Airport. The eight carriers with the highest market shares—American Airlines, Delta Air Lines, US Airways (including US Airways Shuttle), JetBlue Airways, United Air Lines, AirTran Airlines, Northwest Airlines and Continental Airlines—carried 76.3% of all passengers traveling through the Airport during fiscal year 2006. The largest market share for fiscal year 2006 was shared by Delta and American, each with 15.0% of all passengers traveling through the Airport. See APPENDIX B – Boston-Logan International Airport Market Analysis. The market shares reported in Appendix B may differ from those stated herein because the Authority excludes data on airlines' regional affiliates when reporting market share data.

The lack of concentration in air carrier market shares has become more pronounced over the past five years. The share held by the largest carrier fell from 19.3% in fiscal year 2002 to 15.0% in fiscal year 2006. Over the same period, the market share held by the top two carriers fell from 36.7% to 30.0%, while the market share of the top four carriers fell from 63.1% to 53.5%.

BOSTON-LOGAN INTERNATIONAL AIRPORT
MARKET SHARES OF TOTAL PASSENGER TRAFFIC
(fiscal year ended June 30)

Air Carrier	2002	2003	2004	2005	2006	Six Months Ended 12/31/05	Six Months Ended 12/31/06
AirTran Airways	1.4%	2.6%	3.4%	3.7%	4.9%	4.6%	5.7%
American Airlines	17.4	17.4	17.4	16.1	15.0	15.5	14.1
Continental Airlines	4.9	4.7	4.4	4.2	4.3	4.3	4.2
Delta Air Lines (1)	19.3	19.2	18.0	16.9	15.0	15.2	12.0
JetBlue Airways (2)	0.0	0.0	2.0	5.7	9.5	7.0	11.7
Northwest Airlines	5.5	5.3	5.0	4.8	4.8	5.0	5.1
United Airlines	10.1	9.9	9.1	8.6	8.8	8.7	9.8
US Airways, Inc. (3)	16.2	14.9	15.7	14.5	13.9	13.8	13.4
Foreign Flag	10.7	11.2	10.8	10.1	9.8	10.4	9.9
Regional U.S. Carriers	10.4	10.9	10.8	10.6	10.0	10.5	10.9
Other U.S. Carriers	4.0	4.0	3.5	4.6	4.0	5.0	3.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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(1) Includes Delta Shuttle, Delta Express and Song. Data for Song are no longer reported separately as of May 2006.
(2) JetBlue Airways commenced service at Logan Airport in January 2004.
(3) Includes America West Airlines. In 2005 America West Airlines acquired US Airways and changed its name to US Airways, Inc. Includes US Airways Shuttle.

Source: Authority.

The market share of foreign flag carriers serving the Airport has been reasonably stable over the five years ending in fiscal year 2006, ranging between 9.8% and 11.2% of passenger traffic. Foreign flag carriers had a 9.8% market share in fiscal year 2006 as international passenger traffic on foreign flag carriers decreased 1.9%. The foreign flag carriers with the largest market shares in fiscal year 2006 were British Airways, Lufthansa German Airlines and Air France, with 1.8%, 1.3% and 1.1% of total passenger traffic, respectively.

The market share of the regional U.S. carriers has remained steady, fluctuating between 10.0% in fiscal year 2006 and 10.9% in fiscal year 2003. As of June 30, 2006, American Eagle, owned by AMR Corp., parent of American Airlines, accounted for the greatest share of all domestic regional traffic at the Airport, with 38.6% of domestic regional passengers, followed by the US Airways Express group of regional carriers, with 20.6% of domestic regional passengers.

Low-Cost Carriers. The distinction between low-cost carriers and legacy carriers continues to diminish as the legacy carriers have continued to restructure their operations either within or outside of bankruptcy protection and low-cost carriers have experienced increases in operating costs. In September 2005, America West Airlines purchased the assets of US Airways, which had been under bankruptcy protection, and made US Airways the corporate name of the combined carrier. While in bankruptcy from September 2005 through April 2007, Delta Air Lines shed costs and consolidated the operations of Song, its former low-cost operating division, under Delta's name. As of December 31, 2006, the low-cost carriers providing service at the Airport were AirTran Airways, JetBlue, Spirit Airlines and US Airways. As of December 31, 2006, these four carriers served 37 non-stop destinations (33 non-stop destinations excluding US Airways). During fiscal year 2006, these low cost carriers (in addition to Song, which reported passenger traffic for a portion of the year) handled 35.1% of the Airport's passengers (23.0% excluding US Airways). In fiscal year 2005, which was prior to America West's acquisition of

US Airways, the low-cost carriers then serving Logan Airport handled 20.6% of passenger traffic, up from 15.4% in fiscal year 2004. The number of passengers flying on low-cost carriers was 9.6 million in fiscal year 2006, up 74.3% from the 5.5 million passengers served by the low-cost carriers in fiscal year 2005. When passengers traveling on US Airways are excluded from the fiscal year 2006 low-cost carrier share, the number of passengers flying on low-cost carriers at Logan Airport grew by 14.4% compared with their performance in fiscal year 2005, while Airport passenger traffic as a whole grew by 2.2% in fiscal year 2006. See APPENDIX B – Boston-Logan International Airport Market Analysis. The number of low cost carriers serving Logan reported in Appendix B may differ from the number stated herein because the Authority considers US Airways to be a low cost carrier.

Since the commencement of service in January 2004, JetBlue has grown to be the Airport's fourth largest carrier with a market share of 9.5% in fiscal 2006. For the six months ended December 31, 2006, JetBlue's market share was 11.6%. AirTran has also grown significantly over the past five years becoming the Airport's sixth largest carrier with a 4.9% market share for fiscal year 2006 and a 5.7% share in the six months ended December 31, 2006. Logan Airport's low cost carriers provide low fare options mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

The following chart shows the growth rate of passenger traffic for the eight largest carriers serving Logan Airport. In addition to JetBlue and AirTran, Continental, Northwest and United have experienced growth in passenger traffic in each of the last three fiscal years, demonstrating that legacy carriers have also been able to grow their businesses at the Airport.

BOSTON-LOGAN INTERNATIONAL AIRPORT
ANNUAL GROWTH IN PASSENGER BY CARRIER
(fiscal year ended June 30)

Air Carrier	**FY2003**	**FY2004**	**FY2005**	**FY2006**	**Six Months Ended 12/31/06 (1)**
AirTran Airways	92.1%	44.1%	20.1%	33.6	25.3%
American Airlines	2.3	8.4	1.3	-4.9	-7.2
Continental Airlines	-2.2	2.6	3.9	4.3	-0.1
Delta Air Lines	1.2	1.9	2.8	-9.1	-19.6
Jet Blue Airways (2)	-	-	219.4	69.5	69.1
Northwest Airlines	-1.3	2.5	5.8	2.0	5.2
United Airlines	-0.2	0.2	3.6	4.8	14.7
US Airways, Inc. (3)	-6.1	14.3	0.9	-1.8	-0.7
Foreign Flag	5.8	5.0	2.9	-1.9	-2.6
Regional U.S. Carriers	6.2	8.0	7.8	-4.3	6.1
Other U.S. Carriers	2.9	-7.1	45.8	-11.3	-33.7
Total	2.1%	8.6%	9.4%	2.2%	2.0%

(1) Growth relative to six months ended December 31, 2005.
(2) JetBlue Airways commenced service at Logan Airport in January 2004.
(3) Includes America West Airlines. In 2005 America West Airlines acquired US Airways and changed its name to US Airways, Inc. Includes US Airways Shuttle.

Source: Authority.

The expansion of low-cost carrier service and the combination of improving national and regional economies have stimulated traffic growth at the Airport during the fiscal year 2004 to 2006 period. Major carriers at the Airport have responded to low-cost carriers with service and price competition. While much of the recent traffic growth was facilitated by low-cost carrier activity, other factors have contributed to the growth of traffic at the Airport, including significant infrastructure investments, aggressive marketing efforts and untapped market potential.

Passenger Markets. As of December 31, 2006, scheduled non-stop service from the Airport was offered to 75 domestic and 28 international destinations compared with 70 domestic and 25 international airports as of December 31, 2005. In addition to increasing the number of non-stop destinations offered, carriers have altered flight frequencies to markets they continue to serve, as they seek a better balance between supply and demand.

Airline service patterns between Boston and smaller cities within 250 miles of the Airport continue to change. Airlines have reduced and/or eliminated large jet service to certain short-haul markets, and regional airlines have commenced service to many such markets. In addition, many major carriers are relying on their affiliated regional carriers to explore the viability of service to new markets and increased frequency of service to existing markets. Many regional airlines are making significant investments in regional jet aircraft with 70-100 seats.

The destinations chosen by passengers using the Airport have changed over the years, reflecting the impacts of domestic and international economic cycles, September 11 and the relative cost of air travel. The percentage of passengers traveling by air between Boston and New York/Newark has declined while international traffic and long-haul traffic have increased. In calendar year 1997, approximately 13.0% of total domestic Airport passenger traffic was with New York/Newark, compared to 9.6% in calendar year 2006. Conversely, during that same period, domestic traffic with airports in Florida grew from approximately 11.7% to 17.7%. In addition, international traffic at the Airport increased slightly as a percentage of overall traffic from approximately 14.1% to 14.6% during the same period. In calendar year 2006, the top five international origin-destination markets were London, Paris, Dublin/Shannon, Toronto and Frankfurt.

The following table shows the percentage of passengers traveling on U.S. air carriers between the Airport and other final domestic destinations for calendar year 2006, as reported by DOT. Passengers traveling on international flights are not included. It also shows the comparative ranking of the top 20 domestic destinations for calendar year 1997.

BOSTON-LOGAN INTERNATIONAL AIRPORT
TOP TWENTY DOMESTIC PASSENGER MARKETS
U.S. CERTIFICATED CARRIERS
(12 Months Ended December 31, 2006 and 1997)

Market	Calendar 2006 Percentage	Calendar 2006 Rank	Calendar 1997 Rank
New York, New York / Newark, New Jersey	9.6%	1	1
Washington D.C.	9.0	2	2
Florida South*	5.6	3	6
San Francisco, California	5.6	4	5
Los Angeles, California	5.1	5	4
Orlando, Florida	4.8	6	7
Chicago, Illinois	4.7	7	3
Atlanta, Georgia	4.1	8	8
Philadelphia, Pennsylvania	3.3	9	9
Tampa, Florida	2.6	10	11
Fort Myers, Florida	2.4	11	19
Las Vegas, Nevada	2.4	12	13
Denver, Colorado	2.3	13	14
Dallas, Texas	2.3	14	10
West Palm Beach, Florida	2.2	15	12
Minneapolis - St. Paul, Minnesota	1.9	16	18
Seattle, Washington	1.7	17	20
Detroit, Michigan	1.5	18	17
Houston, Texas	1.5	19	-
Phoenix, Arizona	1.4	20	16
Baltimore, Maryland	-	-	15
Total for Cities Listed	74.1%		

* Florida South consists of Miami and Fort Lauderdale.
Source: DOT

Other Factors. The future level of aviation activity and enplaned passenger traffic at the Airport will depend upon factors such as general regional, national and international economic conditions, potential security threats and the financial condition of individual airlines and their continued service at the Airport. The Authority strives to manage operating and capital costs to relieve the burden on aeronautical rates and charges for airlines and their passengers when possible. For a discussion of the impact of the Northwest bankruptcy on the Authority, see "BONDHOLDERS' CONSIDERATIONS – Effect of Bankruptcy of Air Carriers."

There are two primary regional airports in New England, T.F. Green Airport in Providence, Rhode Island ("*T.F. Green*") and Manchester Airport in Manchester, New Hampshire ("*Manchester*"), that compete with Logan Airport. Logan Airport is by far the largest airport in the region and the only one providing direct service to Europe or the Caribbean. Logan Airport enplaned 13.8 million passengers in calendar year 2006. Over the same period, T.F. Green and Manchester enplaned 2.6 million and 2.0 million passengers, respectively. The 4.7 million passengers enplaning on low-cost carriers at Logan Airport in calendar year 2006, was significantly larger than the 2.8 million enplanements for low-cost carriers at T.F. Green and Manchester combined.

Cargo Airline Services. The Airport plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2006 the Airport ranked 19th in the nation in total air cargo volume. As of December 31, 2006, the Airport was served by ten all-cargo and small package/express carriers. For 2006, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage, were Federal Express, United Parcel Service, American Airlines, British Airways, Lufthansa German

Airlines and DHL Airways. Together, these six carriers accounted for 73.5% of total cargo and mail handled at the Airport in fiscal year 2006.

Cargo and Mail Traffic. In fiscal year 2006, total combined cargo and mail volume was approximately 759.3 million pounds. This total volume consisted of 59.7% small package/express, 34.9% freight and 5.4% mail. The total volume of air cargo and mail handled at the Airport decreased in fiscal year 2006 by 4.6% compared to fiscal year 2005 and decreased by 1.6% in fiscal year 2005 relative to fiscal year 2004. A large percentage of total cargo volume for these periods is attributable to integrated all-cargo companies and small package/express carriers. The integrated all-cargo companies, which include Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., DHL, Air Transport International, and Kitty Hawk Airlines, handled approximately 62.6% of the Airport's cargo in fiscal year 2006, compared to 61.4% in fiscal year 2005.

Historical and Forecast PFCs and Estimated Debt Service Coverage

The following tables set forth (i) information concerning enplanements at the Airport from fiscal year 2002 through fiscal year 2006, (ii) PFCs collected at the Airport in the fiscal years 2002 through 2006, (iii) PFCs and enplanement forecasts reviewed by Jacobs Consultancy for each of the fiscal years 2007 through 2011, (iv) estimated debt service to be payable on the 2007 PFC Bonds, and (v) forecasted Annual Debt Service Coverage on the 2007 PFC Bonds. The forecasts presented in this table were prepared by the Authority on the basis of assumptions believed to be reasonable; however, the Authority makes no representation that the conditions assumed will in fact occur. Inevitably, some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and these differences may be material.

Financial statements of the Authority for fiscal year 2006 and comparative data for fiscal years 2004 and 2005, together with the report thereon of PricewaterhouseCoopers LLP, independent auditors, are included in APPENDIX A. Information for the six-month periods ended December 31, 2005 and 2006 under the caption "Historical PFC Revenues and Debt Service Coverage" is derived from the financial records of the Authority and has not been audited or reviewed by PricewaterhouseCoopers LLP.

The table on page 41 reflects forecasted PFC Revenues and Debt Service Coverage for fiscal year 2007 through fiscal year 2011, prepared in accordance with accounting principles required by the PFC Trust Agreement. The prospective financial information included in this Official Statement has been prepared by and is the responsibility of the Authority's management. PricewaterhouseCoopers LLP has neither examined nor compiled the accompanying "Forecasted PFC Revenues and Debt Service Coverage Showing PFC Pledged Revenues Attributable to the First $4.50 of PFCs Collected from Each Eligible Passenger," and accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP report included in APPENDIX A to this Official Statement relates to the Authority's historical financial information. It does not extend to the prospective financial information and should not be read to do so. The prospective financial information was prepared by the Authority in accordance with accounting principles required by the PFC Trust Agreement in order to show projected debt service coverage; such information was not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information.

The Authority's commercial paper program, with $89 million outstanding as of April 30, 2007, is not secured by PFCs or the PFC Trust Agreement. The commercial paper program is secured by the Authority's Improvement and Extension Fund, a fund held under the 1978 Trust Agreement. However, the Authority has used its commercial paper to fund PFC-eligible costs of some Approved Projects, most notably the International Gateway. The Authority's financial plan calls for the commercial paper to be treated as revenue anticipation notes, with PFC cash being used, on a pay-as-you-go basis, to pay interest, other related financing expenses and the repayment of commercial paper principal.

HISTORICAL PFC REVENUES AND DEBT SERVICE COVERAGE
UNDER THE PFC TRUST AGREEMENT
SHOWING PFC PLEDGED REVENUES ATTRIBUTABLE TO THE FIRST $3.00 OF PFCs COLLECTED FROM EACH ELIGIBLE PASSENGER
(fiscal year ended June 30)
(in thousands)

	2002	**2003**	**2004**	**2005**	**2006**	**Six Months Ended 12/31/05**	**Six Months Ended 12/31/06**
Enplaned Passengers[1]	11.026	11,250	12,236	13,381	13,662	6,946	7,066
Annual Rate of Change of Enplaned Passengers	-19.3%	2.0%	8.8%	9.4%	2.1%	1.4%	1.7%
Estimated Percent of Enplaned Passengers Paying PFC [2]	91.45%	88.55%	91.93%	91.32%	91.01%	88.97%	90.98%
Net PFC Collections	$29,445	$29,090	$32,845	$35,316	$36,184	$17,667	$18,816
PFC Investment Income	2,652	771	607	621	1,055	406	363
Total	$32,097	$29,861	$33,452	$35,937	$37,239 [3]	$18,073 [3]	$19,179 [3]
Gross Annual Debt Service	21,547	21,545	21,548	21,543	21,546	10,773	10,772
Non-PFC Interest Income [4]	7,402	3,841	895	1,329	1,305	656	659
Net Annual Debt Service	$14,145	$17,704	$20,652	$20,213	$20,241	$10,116	$10,112
PFC Debt Service Coverage	2.27	1.69	1.62	1.78	1.84	1.79	1.90
First Lien Sufficiency Covenant	2.27	2.42	2.50	2.55	1.38	NA	NA

(1) Excludes general aviation passengers from whom PFCs are not collected.
(2) Estimated based on PFC collections for the respective fiscal years and after allowance for the air carriers' PFC collection fee during the fiscal year. These figures are estimated because PFCs are collected from passengers at the time of ticket sale, not at the time the travel occurs.
(3) Net PFC collections and investment income thereon attributable to the entire $4.50 PFC, effective October 1, 2005, was $49.6 million for fiscal year 2006, and $21.0 million and $28.7 million in the six month periods ending December 31, 2005 and December 31, 2006, respectively.
(4) Interest income on the Debt Service Reserve Fund, the Project Fund and non-PFC interest income on the Debt Service Fund, which is earned under guaranteed investment contracts, is used to fund annual debt service.

FORECAST PFC REVENUES AND DEBT SERVICE COVERAGE
UNDER THE PFC TRUST AGREEMENT
SHOWING PFC PLEDGED REVENUES ATTRIBUTABLE TO THE FIRST $4.50 OF PFCs COLLECTED FROM EACH ELIGIBLE PASSENGER
(fiscal year ended June 30)
(in thousands)

	2007	2008	2009	2010	2011
Enplaned Passengers (1)	13,882	14,090	14,302	14,516	14,734
Annual Rate of Change of Enplaned Passengers	1.6%	1.5%	1.5%	1.5%	1.5%
Estimated Percent of Enplaned Passengers Paying PFC	88.6%	88.0%	88.0%	88.0%	88.0%
Net PFC Collections	$53,992	$54,434	$55,250	$56,079	$56,920
PFC Investment Income	474	172	148	89	115
Total	$54,466	$54,606	$55,398	$56,168	$57,035
Gross Annual Debt Service	19,809	27,311	27,188	27,189	27,182
Non-PFC Interest Income (2)	1,282	1,138	1,131	1,131	1,131
Net Annual Debt Service	$18,527	$26,173	$26,057	$26,058	$26,051
PFC Debt Service Coverage	2.94	2.09	2.13	2.16	2.19
First Lien Sufficiency Covenant	1.69	1.77	1.82	1.85	1.83

(1) Excludes general aviation passengers from whom PFCs are not collected.
(2) Assumes interest income on the Debt Service Reserve Fund, the Project Fund and non-PFC interest income on the Debt Service Fund will be used to fund annual debt service.

MANAGEMENT'S DISCUSSION OF FORECAST ASSUMPTIONS

The following discussion elaborates on the information contained in the above table entitled "Historical and Forecast PFCs and Estimated Debt Service Coverage" and reflects the most current information available to the Authority. The table contains forecasts for the period covering fiscal year 2007 through fiscal year 2011. For fiscal year 2007, forecasts are based on actual results for the first six months and budgeted year-end results through June 30, 2007. The forecasts for fiscal year 2007 form the base for the forecasts for future fiscal years. The forecasts reflected in the table assume an annual rate of enplaned passenger growth at the Airport of 1.5% for periods commencing after December 31, 2006, with 88% of enplaned passengers paying PFCs, investment income at a rate of 2.25%, and completion dates for capital projects as currently contained in the FY07-FY11 Capital Program. While the Authority believes that the assumptions made in developing such forecasts are reasonable, it makes no representation that the conditions assumed will in fact occur. To the extent that actual future conditions differ from those assumed herein or from the information on which the assumptions are based, the actual operation results could vary materially from those forecasted.

Forecasted Revenues and Operating Expenses of the Airport are based in part on assumptions regarding future levels of passenger enplanements. In making such assumptions, the Authority has used estimates of annual growth in enplanements of 1.5% beginning in calendar year 2007. Such estimate reflects the Authority's preference for using conservative estimates in its financial planning. APPENDIX B – Boston-Logan International Airport Market Analysis states that the Authority's financial forecast of enplanement growth at the Airport of 1.5% per year is reasonable, that the FAA's terminal area forecast of 2.3% represents a reasonable level of future passenger traffic at the Airport, and that the Authority's financial forecast of 1.5% average annual growth from 2007 through 2011 is conservative compared to the FAA forecast and the Airport's historical annual growth.

The $4.50 PFC the Authority currently imposes, together with interest thereon, is projected to generate revenues at an average annual level of approximately $55 million based upon an estimated average annual increase in eligible enplaned passengers of 1.5% through fiscal year 2011 and an average of 88% of enplaned passengers paying a PFC. The Authority's receipt of PFCs and the amount of PFCs received are subject to many factors, including compliance with federal law and regulations, passenger levels, as well as continuation of the program. See "THE PFC PROGRAM."

Review of the Boston Regional Market Analysis

The Market Analysis Report set forth in APPENDIX B was prepared by Simat, Helliesen & Eichner, Inc., Cambridge, Massachusetts in connection with the issuance of the 2007 Bonds and the 2007 PFC Bonds. Such study is set forth herein in reliance upon the knowledge and experience of such firm as airport consultants.

Review of PFC Revenue Forecasts

Jacobs Consultancy prepared a review of the Authority's PFC Pledged Revenue forecasts in connection with issuance of the 2007 PFC Bonds, which is included as APPENDIX C to this Official Statement. The review should be read in its entirety for an understanding of the forecasts and the key underlying assumptions therein. In the opinion of Jacobs Consultancy, the assumptions upon which the Authority's forecasts are based provide a reasonable basis for the forecasts and such forecasts appropriately reflect such assumptions. As stated in the review, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results and those differences may be material.

CAPITAL PROGRAM

On February 14, 2007, the Members of the Authority approved the FY07-FY11 Capital Program. The FY07-FY11 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and Transportation Security Administration ("*TSA*") grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. The FY07-FY11 Capital Program includes forecasted total expenditures of $1.95 billion for ongoing projects and projects to be commenced during the five-year program period, including $960 million in Authority funded projects and $995 million in projects anticipated to be funded through third-party or non-recourse funding sources.

In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, as mentioned above, the FY07-FY11 Capital Program allocates $960 million of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking and rental car facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities. For Authority-funded projects in the FY07-FY11 Capital Program, 79.7% are allocated to Logan Airport, 1.9% to Hanscom Field, 9.9% to the Maritime Facilities, 4.8% to the Bridge and 3.7% for Authority-wide projects.

During fiscal year 2006, the Authority disbursed $311.9 million on its on-going capital program. Major projects substantially completed in fiscal year 2006 include the new Logan airfield lighting vault, upgrade of the fire alarm system at the Airport, the South Boston waterfront park and roads and the overlay of the upper level deck of the Tobin Bridge. In fiscal year 2006 work commenced on the Logan Wayfinding System, the new facilities maintenance building at the Airport, the soundproofing for the homes under the flight path of Runway 14/32, the Terminal B public space expansion including the replacement of the exterior sliding doors, a new sand storage building at Hanscom Field, new concrete runways for the container handling cranes at Conley Terminal and the overlay of the lower deck at the Bridge. Major on-going projects that are scheduled for completion in fiscal year 2007 or beyond at the Airport include Runway 14/32 and the Centerfield Taxiway project; the repair and expansion of the Central Parking Garage at the Airport, which includes completely rebuilding the three lower floors of that garage, renovating the next two floors, and adding three new levels to that structure; the International Gateway; the enhanced security program; residential soundproofing in nearby communities; and certain Terminal Area Roadway improvements.

The Authority-funded portion of the FY07-FY11 Capital Program is funded from a variety of sources, including Bond proceeds, grants, PFCs and pay-as-you-go capital. See the table captioned "Summary of Estimated Funding Sources and Capital Projects" below. In addition, the FY07-FY11 Capital Program includes certain large

projects, notably the Consolidated Rental Car Facility and the Core Block Development in South Boston, which are anticipated to be funded from either non-recourse or third-party sources, such as special facilities revenue bonds. See “Logan Airport Improvements – Southwest Service Area Parking Garage and Consolidated Rental Car Facility” and “Other Improvements – Additional Third Party Development Ventures” below.

If federal grant receipts expected pursuant to the LOI regarding funding for Runway 14/32 and other associated projects or from TSA relating to hold baggage screening improvements are delayed or cancelled, the Authority may issue additional Bonds to fund the airfield and security projects contained in the FY07-FY11 Capital Program. See “Logan Airport Improvements” below. See also “AVIATION INDUSTRY CONSIDERATIONS – Considerations Regarding Other Sources of Revenue.” If significant changes were to occur in available amounts from other expected funding sources, or if the costs of certain projects were to increase significantly, the Authority would be required to adjust the timing or reduce the scope of individual proposed projects or the overall program, or both, to accommodate such changed circumstances. For example, in October 2001, as part of its financial recovery plan in response to the financial and operational implications of the events of September 11, the Authority postponed projects and reduced the capital program for fiscal years 2001 through 2006 from a six-year plan to a two-year plan. While projects that were under construction continued uninterrupted, many other projects were postponed. The two-year capital plan approved by the Authority in October 2001 for fiscal years 2002 and 2003 projected expenditures of $469.5 million, 37% below the previously approved spending level of $749 million for that same time period.

Many of the commitments within the Authority’s capital plan, such as the International Gateway project, which has doubled the size of Terminal E, and Southwest Taxiway improvements, have already been authorized by the Authority and extend over several years. Nevertheless, when the Authority commences a project within its capital program, it is a separate “module” that the Authority approves individually along with a separate project budget. This permits the Authority to undertake the construction and financing of each of these additional projects independently of other capital projects, while retaining overall program coordination and integration. Particularly at Logan Airport, each new project is added to the rate base or is expected to generate revenue upon its completion. The Authority believes that the modular design of the capital program significantly increases its ability to make needed adjustments in capital spending levels.

The FY07-FY11 Capital Program includes the acquisition of roadway segments from the CA/T Project, the completion of the Authority’s earlier capital program initiated in 1995 to repair, modernize and revitalize the physical plant at Logan Airport (“*Logan Modernization*”), significant capital improvements to Logan Airport’s airfield, security enhancements and parking and rental car improvements at the Airport, residential soundproofing in the communities neighboring the Airport, enhancements to the Maritime Properties, Hanscom Field and the Bridge and the maintenance and renewal of its existing facilities, all as more fully described below.

Set forth in the following table is a summary of the estimated funding sources for the FY07-FY11 Capital Program and a summary of uses, showing capital projects by funding category. As shown in the table, following the issuance of the 2007 Bonds and the 2007 PFC Bonds, the Authority’s financing plan assumes the sale of additional Bonds under the 1978 Trust Agreement to fund $147.8 million for the construction of the Southwest Service Area parking garage and a $24.9 million payment for the Airport Roadway Acquisition from CA/T Project and $15.0 million for a new security corridor connecting Pier A of Terminal C to the main concourse. The table also shows $255.4 million for the Consolidated Rental Car Facility, which is currently planned to be funded with special facilities revenue bonds. No commitments will be made to construct these projects until the appropriate environmental approvals and business agreements are in place. The table also shows projects that have been or may be funded through other third-party or non-recourse funding sources.

SUMMARY OF ESTIMATED FUNDING SOURCES AND CAPITAL PROJECTS
FISCAL YEAR 2007 – FISCAL YEAR 2011
(in thousands)

Funding Sources		
	Maintenance Reserve Fund	$ 253,811
	Improvement and Extension Fund	241,254
	PFCs pay-as-you-go	62,165
	2007-B PFC Bond proceeds*	35,568
	Commercial Paper	27,036
	FAA Entitlement Grants	26,288
	FAA Discretionary Grants	47,321
	FAA Logan Soundproofing Grants	27,693
	TSA Aviation Discretionary Grants	7,866
	Other Grants	1,000
	2005 Bond proceeds*	26,353
	2007 Bond proceeds*	39,941
	2009 Bond proceeds*	163,452
	Third party or non-recourse financing	994,990
	Total Funding Sources	$1,954,738
Projects Funded Primarily with Revenue Bonds		
	Airport Roadway Acquisition from CA/T Project (1)	$ 50,000
	Airfield & Security Projects (1)	14,841
	Southwest Service Area Parking Garage	123,552
	Consolidated Rental Car Facility (2)	255,402
	Central Parking Garage Repairs and Expansion (3)	47,593
Projects Funded Primarily with PFC Bonds, PFCs and Grants		
	Runway 14/32 and Associated Taxiways (3) (4)	35,427
	Southwest Taxiway (4)	24,515
	Runways 4L/22R and 4R/22L Improvements (3) (4)	6,436
	Airfield Drainage and Perimeter Road Improvements	1,200
	Taxiway D Extension	2,131
	Centerfield Taxiway	52,208
	Other Airfield Projects Funded with PFCs and Grants	10,394
	Security Projects Funded with PFCs and Grants (3)	15,823
	Residential Sound Insulation Program and Related Projects	41,753
	International Gateway (Logan Modernization) (3)	40,645
Other Projects Funded Primarily with Authority Internally Generated Funds		
	Other Security Projects in the Massport Security Program	62,099
	Terminal B Parking Garage Structural Repairs and Lighting	20,650
	Other Airfield Projects	18,026
	Additional capital improvements for other Airport Projects	95,310
	Capital Improvements for Maritime	73,670
	Capital Improvements for Hanscom Field and the Tobin Bridge	15,002
	Major maintenance all facilities	208,473
Projects Funded by Third Party Sources		
	Core Block Development in South Boston (third party ventures)	600,000
	Additional third party development ventures	139,588
	Total Capital Program	$1,954,738

*Does not include bond reserves, costs of issuance, capitalized interest or expenditures outside the FY2007-FY2011 time period.
(1) The Bond-funded portion will be financed with the 2007-A Bonds.
(2) Anticipated to be funded primarily with special facilities revenue bonds.
(3) Near completion.
(4) The Bond funded portion will be financed with the 2007-B PFC Bonds.

The table below summarizes the major projects and project groupings that comprise the FY07-FY11 Capital Program and includes budgeted costs, funded amounts, project status, actual and expected dates of commencement, expected dates of beneficial occupancy and anticipated funding sources. A description of the major projects that comprise the FY07-FY11 Capital Program follows the table.

MAJOR PROJECTS IN THE FY07–FY11 CAPITAL PROGRAM

Project	Actual/ Expected Cost[(1)]	Funded Amount[(2)]	Project Status	Actual/Expected Commencement of Construction	Expected Date of Beneficial Occupancy	Actual/ Anticipated Funding Sources
Airport Roadway Acquisition from CA/T Project	$365 million	$340 million	Most Segments in Use	December 1997	December 2007[(3)]	1997 Bonds; 1998 Bonds; 1999 Bonds; 2003 Bonds; 2005 Bonds; 2007 Bonds; Additional Bonds
Runway 14/32 and Associated Taxiways	$87.5 million	$87.5 million	In Use	August 2004	December 2006	2003 Bonds; AIP Grants; PFCs; 2007 PFC Bonds; 2007 Bonds
Additional Airfield Improvements	$92.1 million	$29.9 million	In Construction	April 2007	December 2012	2003 Bonds; AIP Grants; PFCs; 2007 PFC Bonds
Major Airfield Maintenance	$69.1 million	$69.1 million	In Construction	April 2004	May 2008	AIP Grants; PFCs; 2007 PFC Bonds; Maintenance Reserve Fund; Improvement and Extension Fund
Airport Security Projects	$262.5 million	$262.5 million	In Construction	July 2002	May 2011	AIP Grants; PFCs; Maintenance Reserve Fund; Improvement and Extension Fund
Residential Sound Insulation Program and Related Projects	$75.6 million	$73.2 million	In Construction	July 2001	March 2010	AIP Grants; PFCs; Improvement and Extension Fund
Southwest Service Area Parking Garage and Consolidated Rental Car Facility	$453 million	$4.5 million	In Planning Phase	July 2009	December 2011	Additional Bonds; Special Facilities Revenue Bonds; Improvement and Extension Fund; CFCs [(4)]
Central Parking Garage Repairs & Expansion	$217.5 million	$217.5 million	In Use	May 2004	February 2007	1999 Bonds; 2003 Bonds; 2005 Bonds; Improvement and Extension Fund
International Gateway (Logan Modernization) [(5)]	$419.5 million	$419.5 million	South Addition Opened May 2003/Renovation of Older Portion of Terminal Nearing Completion	August 1998	July 2007	1999 Bonds; 2005 Bonds; 1999 PFC Bonds; PFCs, commercial paper

(1) Includes costs incurred prior and subsequent to, and contained in the FY07-FY11 Capital Program.
(2) Funded amount is comprised of proceeds of the 2007 Bonds, proceeds of previously issued Bonds, proceeds of the 1999 PFC Bonds, and funds from the Improvement and Extension Fund, the Maintenance Reserve Fund and the PFC Capital Fund that are budgeted to be spent on the major projects by June 30, 2011.
(3) While construction is expected to be completed by December 2007, the Authority does not expect to take title to the roadway until the end of calendar year 2008.
(4) See the discussion of CFCs under the heading "Southwest Service Area Parking Garage and Consolidated Rental Car Facility" below.
(5) Does not include $43.9 million in project costs for the hold baggage screening system in Terminal E which was part of another project.

Logan Airport Improvements

Airport Roadway Acquisition from CA/T Project. Pursuant to state legislation enacted in 1997 and amended in 2000, the Authority is required to acquire roadway segments providing Airport access to and from the Ted Williams Tunnel in exchange for payments of $365 million. Pursuant to the Roadway Transfer Agreement, the Authority will acquire certain roadway assets that exclusively serve Logan Airport or provide enhanced access to or egress from the Airport in exchange for installment payments totaling $365 million. Pursuant to the Roadway Transfer Agreement, payments of $12.1 million, $30.7 million, $52.2 million, $65 million, $104.9 million and $50 million were made for fiscal years 1998, 1999, 2000, 2001, 2003 and 2005, respectively, for roadway assets that are in service. The remaining $50 million payment is included in the FY07-FY11 Capital Program. For purposes of the FY07-FY11 Capital Program, the Authority has assumed that $25.1 million of this remaining payment will be made in fiscal year 2007 from the proceeds of the 2007-A Bonds. Discussions continue with the Commonwealth as to the terms and timing of the payment of the remaining $24.9 million for roadway assets to which the Authority will take title.

Runway 14/32 and Associated Taxiways. The FY07-FY11 Capital Program includes the completion of the construction of Runway 14/32, which was commissioned in November 2006 and is in use. Runway 14/32 and its associated taxiways, which link the runway to the airfield's previously existing taxiway system, were designed to separate turboprop and regional jet aircraft operations from larger jets in order to alleviate the reduction in normal airfield capacity that occurs under certain wind and weather conditions. Due to the Airport's geographic location, weather and prevailing wind patterns, and a high level of regional carrier operations, the Airport historically has ranked among the lowest performing major U.S. airports in aircraft operational delay. Runway 14/32 has alleviated a portion of this congestion. Pursuant to the LOI, the FAA has approved $90.8 million in Airport Improvement Program ("AIP") funding for Runway 14/32, the Southwest Taxiway and the extension of Taxiway D and has also approved the use of PFC revenues to match the AIP grants. See "Funding Sources – Federal Grants" and "Funding Sources – PFCs" below. Approximately $8.1 million of costs that are ineligible for grants and PFCs will be funded from the proceeds of the 2007-A Bonds. The approved project budget for Runway 14/32 is $99.7 million. However, due to lower than expected construction costs, the Authority believes that the final cost of the project will not exceed $87.5 million, of which $75.7 million or 87% was expended through December 31, 2006.

Additional Airfield Improvements. The FY07-FY11 Capital Program includes Additional Airfield Improvements which comprise the Southwest Taxiway project, Taxiway D Extension and the Centerfield Taxiway. These projects are also expected to ease aircraft operational delays. The Authority received environmental approval for the Southwest Taxiway project and associated lighting, signage and drainage improvements, and the 2,000 foot extension to Taxiway D from Taxiway C to Taxiway E at Runway 4R/22L at the same time as Runway 14/32. Pursuant to the LOI, AIP grants are expected to fund 75% of the eligible costs of these projects and PFC Bonds and PFCs will be used for the remaining 25% of eligible costs. The approved project budget for the Southwest Taxiway project is $25.3 million of which $2.0 million had been spent as of December 31, 2006. The approved project budget for the Taxiway D Extension is $13.3 million of which $0.6 million had been spent as of December 31, 2006.

The Centerfield Taxiway has been designed to run between and parallel to Runways 4L/22R and 4R/22L. The Authority expects that this will increase the safety and efficiency of the airfield and reduce the possibility of runway incursions. After extensive environmental studies and public comment, the Massachusetts Secretary of Environmental Affairs issued a certificate on June 15, 2001 determining that the Final Environmental Impact Report for the Airside Capacity Improvements adequately and properly complied with the Massachusetts Environmental Policy Act ("*MEPA*"). On August 2, 2002, the FAA issued a Record of Decision ("*ROD*") that mandated further study on the Centerfield Taxiway. Such studies have been completed and a ROD was received from the FAA on April 20, 2007. The budget for this project is $53.5 million of which $3.1 million had been spent as of December 31, 2006. The Authority is permitted to collect PFCs to fund a portion of this project. Later this year, the Authority expects to seek the ability to use PFCs for this project and will also apply for discretionary AIP grants to fund the balance of this project.

Major Airfield Maintenance. A variety of other important airfield projects are included in the FY07-FY11 Capital Plan. PFC Bonds and AIP grants are expected to be used to fund the overlay of Runways 4L/22R and

4R/22L ($25.3 million), as well as funding improvements to the emergency arresting surface at the end of Runway 4L ($3.4 million) and various improvements to the airfield drainage and perimeter road ($1.2 million). Pay as you go PFCs are expected to be used to reconstruct the alleyways at Terminals C and E ($13.9 million) and the lighting system for Runway 4R/22L ($5.1 million). Internally-generated funds are expected to be used to fund improvements to the safety ends for Runways 33L and 22R ($14 million).

Airport Security Projects. Well before the events of September 11, the Authority hired outside experts to suggest ways to improve security at the Airport and other Authority facilities. The FY07-FY11 Capital Program budgets $5.9 million of the 2007-A Bond proceeds, $42.6 million of internally-generated funds, $6 million of grant funding and $15.8 million in PFCs for such projects at the Airport, which complement the $146 million for hold baggage terminal modifications substantially completed in 2003, which were entirely paid for with grants and PFCs. The security enhancement program at the Airport includes a new access control system ($29.3 million) for those persons authorized access to the secure areas of the terminals and the airfield, vehicle intrusion protection at the terminals and other buildings ($15.4 million), improvements to the bag belts that deliver bags to the hold baggage screeners ($8 million), a new fire boat to improve perimeter security ($6.1 million), air cargo security improvements ($3 million) and the increased use of cameras and other measures designed to increase security throughout the Airport ($12.8 million). The FY07-FY11 Capital also includes investments designed to increase security at the Authority's other facilities.

Residential Sound Insulation Program and Related Projects. The Authority has implemented its Residential Sound Insulation Program in certain communities neighboring the Airport. This program is complemented by periodic flight studies and noise monitoring projects. Under the sound insulation program, homes and schools that are located within the noise exposure area approved by the FAA are eligible for soundproofing. The Authority began this program in 1986. As of December 31, 2006, the Authority and FAA had spent $153.3 million and had treated approximately 4,800 homes containing approximately 9,900 dwelling units and 37 schools. The $75.6 million of residential sound insulation funded by the FY07-FY11 Capital Program includes work on the on-going program as well as soundproofing within the City of Chelsea (under the Noise Mitigation Program) made necessary by and undertaken as mitigation in conjunction with the construction of Runway 14/32. The costs of the Authority's soundproofing programs have in the past been funded primarily from federal AIP grants. The Authority anticipates the funding for the remaining work to be eligible for up to 80% federal funding under the AIP. Any costs not funded by AIP grants are expected to be funded from PFCs. As of December 31, 2006, the Authority has been awarded approximately $142 million in noise grants for the sound insulation program. See "AVIATION INDUSTRY CONSIDERATIONS."

Southwest Service Area Parking Garage and Consolidated Rental Car Facility. The Authority has begun the planning and environmental permitting for the redevelopment of the southwest service area. The program includes the construction of a public parking garage with up to 3,000 parking spaces and the construction of a consolidated rental car facility with 3,000 ready/return spaces, a customer service center, seven acres of quick turn around fueling and cleaning facilities, nine acres of on-site rental car storage, along with relocated bus, taxi and limo pools and associated utility and roadway upgrades. It is expected that a common bus fleet of clean fuel vehicles will serve both the parking and the rental car patrons.

The Authority is evaluating a full build option currently estimated to cost $453 million, and a phased option for construction. The environmental work is expected to be completed in fiscal year 2009. Prior to that time, the Authority expects to levy a daily Customer Facility Charge ("*CFC*") on rental car patrons. That fee will be used to finance all or part of the Consolidated Rental Car Facility and the bus purchases. The CFC may be used to provide security for special facility financing, or the CFC may be included in Logan Airport's Revenues and used to support Authority revenue bonds. The Authority will also pursue a federal Transportation Infrastructure and Finance and Innovation Act ("*TIFIA*") loan as part of the funding for this project. As the project is in its early planning stages, there can be no assurances regarding the outcome of the environmental process, the negotiations with the rental car companies or the approval for TIFIA funding.

Central Parking Garage Repairs and Expansion. This project includes major repairs to the older half of the Central Parking structure (formerly, the "*Central Garage*") as well as the addition of three new floors with 2,800

additional spaces. The plan includes improved pedestrian circulation between the garage and the Terminals, between the former Central Garage and the new West Garage, and improved vertical circulation between all levels of the garage. The total budget for this work is $217.5 million. Construction started in the spring of 2004, and the first phase, including 1,400 new spaces, opened in March 2006. The second phase, including another 1,400 spaces, opened in February 2007. The approved budget is $217.5 million, of which $211.5 million or 97% was expended through December 31, 2006.

International Gateway. The International Gateway project, part of Logan Modernization, consists of renovating approximately 170,000 square feet of and adding approximately 410,000 square feet to Terminal E. The project has provided for ticketing, U.S. Customs and Immigration facilities, other federal inspection services facilities and concessions. Construction commenced in August 1998. As part of the project, a new double-decked roadway system has been constructed, which has greatly reduced curb and roadway congestion at Terminal E. The South Addition, including the new ticketing areas and new roadway system and curbs, was placed in service in May 2003. The remainder of the International Gateway project is expected to be completed in July 2007. The project is being financed principally (over 80%) from PFCs. The approved project budget is $419.5 million (not including approximately $44 million in hold baggage screening capital costs), of which $385.8 million, or 92%, was expended through December 31, 2006.

Other Airport Projects. The remainder of the FY07-FY11 Capital Program relating to the Airport includes a variety of airside, landside and mitigation projects including the following projects and their estimated costs: terminal area roadway maintenance ($34.3 million), Terminal B parking garage repairs ($20.7 million), Terminal C Connector to Pier A ($15 million), Wayfinding signage ($14.6 million), maintenance garage expansion ($14 million), Terminal B, C and E heating, ventilation and air conditioning upgrades ($12.9 million), State Police Headquarters ($12.9 million), the replacement of the pumping station ($9.7 million), and numerous other improvement projects totaling approximately $146.5 million.

Other Improvements

Maritime Improvements. The FY07-FY11 Capital Program includes $22.1 million to purchase rubber tire gantry cranes and to install concrete runways for those cranes in order to increase the capacity and efficiency of Conley Terminal. The FY07-FY11 Capital Program also includes $40 million to purchase ship cranes and to make various other improvements to the backland at Conley Terminal. As part of the Authority's plans to revitalize its underutilized and obsolete port properties in order to offset the costs of the maritime operations, the FY07-FY11 Capital Program funds a variety of infrastructure improvements in South Boston that are designed to facilitate private development and, in turn, to increase the Authority's revenues. Such projects include repairs to the Commonwealth Pier foundation ($7 million), roadway enhancements to Seaport Boulevard ($1 million), and the construction the Transitway Connector Road ($923,000).

Bridge Improvements. From fiscal year 2007 through fiscal year 2011, the Authority expects to undertake capital renovations and improvements to the Bridge, including re-decking and painting, at an estimated cost of up to $46.8 million.

Third Party Development Ventures. As described above, the Authority expects that approximately $995 million of third party funds will be expended for capital projects on Authority property in the period ending June 30, 2011. These projects include the Core Block development, which is expected to encompass an approximately $600 million retail, residential and parking development on Authority property abutting and on air rights over the Ted Williams Tunnel, and the Consolidated Rental Car Facility expected to be financed with CFCs in the amount of $255 million. Other major third party commitments to construct and finance improvements to the Authority's Projects include the use of $50 million for the redevelopment of the Marine Terminal in South Boston, $17 million in upgraded fuel systems by BOSFUEL at Logan Airport, $20.0 million for the Liberty Mutual Hangar at Hanscom Field, and an additional $40.0 million for general aviation hangars at Hanscom Field.

Funding Sources

The various projects listed in the FY07-FY11 Capital Plan have been and will be financed through the issuance of Bonds, commercial paper, PFC Bonds and special facilities revenue bonds, the application of PFCs, federal grants, private capital and from cash flow from operations. In addition, the Authority's commercial paper program provides interim funding for certain projects. As of December 31, 2006, the Authority had the following approximate amounts available for projects included in FY07-FY11 Capital Program: $7.2 million of the 2005-B Bond proceeds, $145.0 million of cash from operations and $4.3 million of pay-as-you-go PFCs.

Bond Proceeds. The proceeds of the 2007-B PFC Bonds are expected to be used by the Authority to fund improvements at the Airport as shown in the table and described below:

IMPROVEMENTS EXPECTED TO BE FINANCED BY
2007-B PFC BOND PROCEEDS
(in thousands)

Airport Runway, Taxiway and Other Airfield Improvements	
Runway 14/32 and Associated Taxiways	$17,472
Southwest Taxiway, Infield and Taxiway K Improvements	7,228
Overlay of Runway 4L/22R	3,708
Overlay of Runway 22L	6,550
Overlay of Runway 4R	7,013
Runway 4L/22R EMAS	808
Airfield Drainage and Outfall Reconstruction	400
Airfield Perimeter Road Improvements	800
Total	$43,979

Federal Grants. The Authority annually receives grants from the FAA pursuant to the AIP. These grants generally fall into two categories: entitlement grants, which are awarded based upon the number of passengers enplaned at the Airport; and discretionary grants, which are awarded at the discretion of the FAA based upon specified criteria, including a cost-benefit analysis. Following September 11, the FAA also made available a special type of discretionary grant for security projects, as authorized by the federal Aviation and Transportation Security Act ("*ATSA*") enacted in 2001. Similar to many federal grant-in-aid programs, AIP grants are reimbursement grants. Accordingly, the Authority must expend its own cash to fund an authorized project and then submit invoices to the FAA for reimbursement of such costs pursuant to the terms of the grant. Thus, while grants may be awarded in one fiscal year, grant funds may be received over a period of several subsequent fiscal years.

The Authority will continue its practice of fully utilizing the AIP entitlement grants that are awarded to it to maintain and improve the Airport and Hanscom Field, and of aggressively seeking FAA discretionary grants for soundproofing and runway safety improvements. In April 2004, the Authority received approval from the FAA in its LOI for $90.8 million of AIP entitlement and discretionary funding for Runway 14/32 and related airfield enhancements. Under the LOI, the Authority secured a $15.0 million grant in federal fiscal year 2005 and a $13.6 million grant in federal fiscal year 2006. In June 2003, the Authority signed a Memorandum of Understanding with the TSA for $87.0 million to fund a portion of the cost of the infrastructure improvements at the Logan Airport terminals to accommodate the TSA's screening of hold baggage. However, the Authority's past experience with respect to receipt of discretionary grants is no assurance that additional grants will be funded by the FAA or the TSA in the future.

The chart below sets forth the amount and type of AIP and TSA grants awarded to the Authority in federal fiscal years 2002 through 2007.

Federal Grant Authorizations for Capital Construction (1)

Federal Fiscal Year	2002	2003	2004	2005	2006	2007
FAA Entitlement (Airfield)	$10,345,694	$10,250,050	$9,239,851	$8,030,000	$7,030,000	$7,030,000
FAA Discretionary (Airfield - LOI)	0	0	0	7,000,000	6,580,000	6,620,000
Subtotal - Major Airfield Projects	10,345,694	10,250,050	9,239,851	15,030,000	13,610,000	13,650,000
FAA Discretionary (Other Airfield)				4,164,428		
FAA Discretionary (Soundproofing, Noise, etc.)	10,097,001	12,500,000	13,112,023	12,000,000	4,263,335	0
FAA Discretionary (Security)	30,000,000	0	0	0	0	0
TSA - Hold Baggage Screening	0	29,000,000	29,000,000	29,000,000	0	0
TSA - Other Security	0	0	998,000	1,106,369	0	0
Total	$50,442,695	$51,750,050	$52,349,874	$57,136,369	$17,873,335	$13,650,000

(1) Grant authorizations are actual for fiscal year 2002 through fiscal year 2006 and forecast for fiscal year 2007.

Other Funding Sources. In developing the FY07-FY11 Capital Program, the Authority made an exhaustive review of funding sources available to the Authority for such purposes. The FY07-FY11 Capital Program has been carefully tailored to be achievable within the resources anticipated to be available to the Authority at relevant times, including the capacity of users of the facilities of the Authority to bear additional charges. Moreover, the Authority is expending considerable efforts to assure that program costs are predictable and controlled. Should there occur any significant increases in the costs of projects included in the FY07-FY11 Capital Program, whether due to cost overruns or other financial obligations not now contemplated, or should anticipated resources fail to materialize on schedule, resources available to the Authority may be inadequate to accomplish all objectives of the FY07-FY11 Capital Program. If so, the Authority would be required to reduce or delay components of the FY07-FY11 Capital Program. In that event, the selection of projects to be reduced or delayed will depend on circumstances in existence at the time, including relative stages of development, relative economic importance to the activities of the Authority, and degrees of transferability of project funding sources. In addition, if federal grant receipts expected pursuant to the LOI or TSA grants related to hold baggage screening improvements are delayed or cancelled, the Authority may issue additional Bonds to fund the airfield and security projects contained in the FY07-FY11 Capital Program.

BONDHOLDERS' CONSIDERATIONS

General

The principal of and premium, if any, and interest on the 2007 PFC Bonds and on any additional PFC Bonds are payable solely from PFC Pledged Revenue. See "SECURITY AND SOURCES OF PAYMENT FOR THE PFC BONDS – Pledged Revenue." Such funds are the only moneys pledged by the Authority to secure payment of the 2007 PFC Bonds, and no Authority properties or general revenues, including general revenues from operation of the Airport, are pledged to the payment of the 2007 PFC Bonds. No mortgage or security interest or other lien in or on any properties of the Airport, including properties financed with proceeds received from the sale of the 2007 PFC Bonds, has been or will be granted for the benefit of holders of PFC Bonds.

The Authority's ability to pay the principal of and premium, if any, and interest on the 2007 PFC Bonds depends upon the timely receipt by the Authority of PFCs, and the amount of PFCs received annually by the Authority depends principally upon the number of enplanements at the Airport each year. The level of enplanements, in turn, depends in part upon the Authority's management of the operation and improvement of the Airport but in greater part upon a number of economic and other factors that are not within the Authority's control. See APPENDIX B – Boston-Logan International Airport Market Analysis for a discussion of economic factors

relating to the Authority's enplanement projections, APPENDIX C –Review of PFC Revenue Forecasts for a discussion of projected PFCs, and "PASSENGER FACILITY CHARGES" and "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM" for a description of some of the requirements and risks associated with obtaining and maintaining the authority to impose and use PFCs. Although the PFC Trust Agreement requires the Authority to comply with the First Lien Sufficiency Covenant, the Authority is required to test its compliance only once each year.

Termination of PFCs

The Authority's ability to impose and use PFCs is subject to certain terms and conditions provided in the PFC Act, the PFC Regulations and the FAA Approvals. If the Authority fails to comply with these requirements, the FAA may take action to terminate or to reduce the Authority's ability to impose or to use PFCs. In addition, failure to comply with the provisions of the Noise Act may lead to termination of the Authority's ability to impose PFCs. The FAA's agreement regarding reducing instead of eliminating the Authority's rights to collect PFCs after unremedied violations is not applicable to violations of the Noise Act. If the FAA terminates the Authority's ability to impose or to use PFCs, the Authority's ability to pay when due the principal of and interest on the 2007 PFC Bonds or to redeem 2007 PFC Bonds may be materially and adversely affected. See "PASSENGER FACILITY CHARGES" and "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM."

Amendments

There is no assurance that the PFC Act will not be repealed or amended or that the PFC Regulations or the Authority's FAA Approvals will not be amended in a manner that would adversely affect the Authority's ability to collect and use PFC Pledged Revenues in amounts sufficient to make timely payments of principal and interest on the 2007 PFC Bonds.

Collection of the PFCs

The ability of the Authority to collect annually sufficient PFCs depends upon a number of factors including the operation of the Airport by the Authority, the use of the Airport by Collecting Carriers, the efficiency and ability of the Collecting Carriers to collect and remit PFC moneys to the Authority and the number of enplanements at the Airport. The Authority relies upon the Collecting Carriers' collection and remittance of PFCs, and both the Authority and the FAA rely upon the airlines' reports of enplanements and collection statistics.

If the number of enplaned passengers at the Airport is significantly below the numbers forecasted by the Authority in projecting annual PFCs, if the collection fees retained by the Collecting Carriers are increased or if the PFC Act is amended to impair the Authority's imposition or use of PFCs, the amount of PFCs actually collected by the Authority each year will be less than the amount projected and may be less than the amount required to enable the Authority to pay the principal of and interest on the 2007 PFC Bonds. On the other hand, if the number of annual enplanements is higher than initially projected or if the rate of PFCs is increased above $4.50 and the Authority receives FAA approval to impose additional PFCs, the Authority will collect PFCs faster than initially forecast. The Authority will have to manage its PFC program carefully in such event and balance its expenditures with its new collecting rates to ensure that sufficient moneys will be available in later years to pay debt service on the PFC Bonds and to meet the First Lien Sufficiency Covenant in such years. The Authority may be required to redeem 2007 PFC Bonds earlier than planned, to reduce the scope of Approved Projects or to take other remedial steps. See "BOSTON-LOGAN INTERNATIONAL AIRPORT PFC PROGRAM."

Uncertainties of Projections and Assumptions

The Market Analysis Report and the Review of PFC Revenue Forecasts included as APPENDICES B and C, respectively, to this Official Statement contain certain assumptions and projections. Demonstration of compliance with certain of the covenants contained in the PFC Trust Agreement may also be based upon assumptions and projections. Although SH&E and Jacobs Consultancy have found that the assumptions discussed in the Market Analysis Report and the Review of PFC Revenue Forecasts are reasonable and that the projected amounts of

enplanements and PFCs to be collected, respectively, are achievable, projections and assumptions are inherently subject to significant uncertainties. Actual results are likely to differ, perhaps materially, from those projected. Accordingly, the projections contained in the Market Analysis Report and the Review of PFC Revenue Forecasts or that may be contained in any future certificate of the Authority or a consultant are not necessarily indicative of future performance, and none of SH&E, Jacobs Consultancy or the Authority assumes any responsibility for the accuracy of such forecasts. In addition, certain assumptions with respect to future business and financing decisions of the Authority are subject to change. No representation is made or intended, nor should any representation be inferred, with respect to the likely existence of any particular future set of facts or circumstances, and prospective purchasers of the 2007 PFC Bonds are cautioned not to place undue reliance upon the Market Analysis Report and the Review of PFC Revenue Forecasts or upon any forecasts or requirements for forecasts. If actual results are less favorable than the results projected or if the assumptions used in preparing such projections prove to be incorrect, the amount of PFCs payable to the Authority may be materially less than expected and consequently, the ability of the Authority to make timely payment of the principal of and interest on the 2007 PFC Bonds may be materially adversely affected.

Neither the Authority's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to PFCs forecasts contained herein; nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the PFCs forecasts.

Construction and Completion Risk

The failure by the Authority to complete the 2007 PFC Bond Projects could result in the termination or reduction of the Authority's ability to impose or to use PFCs. The completion of the 2007 PFC Bond Projects involves many risks, including shortages of qualified contractors, shortages of labor and materials, work stoppages, labor disputes, bad weather, unforeseen engineering, environmental or geological problems and unanticipated cost overruns, any of which could increase the cost and delay the construction or completion of any one or more of the 2007 PFC Bond Projects. There is no assurance that the cost of the 2007 PFC Bond Projects will not be substantially higher than the Authority's estimates or that the Authority will have sufficient resources to pay for or to finance any significant cost overruns. The PFC Trust Agreement requires that an additional bonds test be satisfied before any additional PFC Bonds may be issued and although the PFC Trust Agreement provides for exceptions to this requirement for completion bonds, there is no assurance that such exceptions will be met. There is no assurance that the Authority will be able to or will issue bonds payable from other funds of the Authority to finance the remaining costs of the 2007 PFC Bond Projects. In addition, completion of the Approved Projects may be delayed by other factors such as litigation, the need to obtain approvals and permits or errors or delays by one or more of the contractors.

Construction of large projects at airports also involves the risk of disruption of ongoing operations and a resultant reluctance on the part of passengers and airlines to use the airport facilities. Although management at the Authority is taking steps to minimize the impact of construction at the Airport and does not believe that air traffic will be reduced, disruption could result in a decrease in the number of enplanements and thus in the annual amount of PFCs payable to the Authority.

Collecting Carrier Bankruptcy Risks

In a bankruptcy proceeding involving a Collecting Carrier, it is possible that any PFCs held by the Collecting Carrier on behalf of the Authority could become subject to the general claims of the Collecting Carrier's unsecured creditors. It is not possible to predict whether, or to what extent, a bankruptcy court would approve the transfer of such PFCs to the Authority.

General Factors Affecting the Airline Industry

Since 2001, the global airline industry has undergone substantial structural changes and sustained significant financial losses. Due to the discretionary nature of business and personal travel spending, airline

passenger traffic and revenues are heavily influenced by the strength of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Permanent structural changes to the industry are the result of a number of factors including the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. Since 2001, several U.S. air carriers have sought to reorganize under Chapter 11 of the U.S. Bankruptcy Code ("*Chapter 11*"), including United (which has since emerged from bankruptcy), Delta (which emerged from bankruptcy on April 30, 2007), Northwest Airlines and US Airways (which has sought reorganization twice and has since emerged from bankruptcy). It is possible that other airlines may seek to reorganize in or out of Chapter 11. With Delta's recent emergence from bankruptcy, of the four largest U.S. air carriers, only Northwest Airlines is still operating under the protection of the U.S. Bankruptcy Code. Potential investors are urged to review the airlines' financial information on file with the Securities and Exchange Commission (the "*SEC*") and DOT. See "Information Concerning the Airlines."

Faced with the growth of lower-cost airlines, and evolving business technology, legacy airlines have been forced to change their business practices. Many businesses have switched to lower-cost carriers and/or implemented significant reductions in business travel. As a result, carriers that once structured their services around the business traveler during the economic expansion in the 1990s have been forced to reduce or eliminate service on unprofitable routes, reduce work force, implement pay cuts, and reduce fares in order to compete with lower-cost carriers.

Another major tangible change in the airline industry has been the significantly increased use of smaller, regional jets. According to the Official Airline Guide data, scheduled flights nationwide on regional jets increased from an average of 85,496 monthly departures in 2000 to 271,509 in 2006, a compounded annual growth rate of 21.2% during this period. Scheduled regional jet traffic accounted for 33% of the scheduled domestic flights in 2006, compared to 10% in 2000.

Other trends that have emerged include: (i) more widespread use of simplified fare structures, (ii) the growth of competition by lower-cost carriers in long haul markets, (iii) increased efficiency and productivity, and (iv) declining real fares. See APPENDIX B – Boston-Logan International Airport Market Analysis for a discussion of certain factors affecting future airline traffic.

Information Concerning the Airlines

Many of the principal domestic airlines serving the Airport, or their respective parent corporations, and foreign airlines serving the Airport with American Depository Receipts ("*ADRs*") registered on a national exchange are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the SEC. Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at http://www.sec.gov containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial and operating statistics with DOT. Such reports can be inspected at DOT's Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from DOT at prescribed rates.

Foreign airlines serving the Airport, or foreign corporations operating airlines serving the Airport (unless such foreign airlines have ADRs registered on a national exchange), are not required to file information with the SEC. Such foreign airlines, or foreign corporations operating airlines, serving the Airport file limited information only with the DOT.

Neither the Authority nor the Underwriters undertakes any responsibility for or makes any representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or DOT or (ii) any material contained on the SEC's website as described in the preceding paragraph, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website.

Financial Condition of the Airline Industry

According to the Air Transport Association of America, Inc. (the "*ATA*"), the initial industry economic outlook for 2007 is the most promising in several years. However, airline debt levels remain high, leaving the airlines vulnerable to fuel spikes, recession or exogenous shocks (e.g. terrorism, pandemics, natural disasters). It is uncertain whether the industry will sustain such a financial outlook over the long-term given the risk factors outlined above and unrelentingly high fuel prices. According to ATA figures, passenger revenue in 2006 remained sharply below comparative historical levels and since 2001 has dropped to 0.73% of U.S. gross domestic product, down from the 1980-2000 average of 0.95%. While the Authority believes that it is less vulnerable to the economic condition of individual airlines because of Logan Airport's high percentage of origin-destination passengers and because no single airline accounts for a majority of enplaned passengers, no assurance can be given as to the financial stability or profitability of the airline industry or of any airline in particular.

The airlines serving the Airport have all been impacted by the events described above and have experienced an increase in costs and a resulting decline in financial condition to varying degrees. Several airlines have filed for bankruptcy protection and are in various stages of their workouts. Since 2001, several airlines with operations at the Airport have filed for bankruptcy protection, including United Airlines, US Airways (twice), American Trans Air, Delta and Northwest. Of these airlines, US Airways emerged from both of its bankruptcy proceedings and was part of the merger of the parent companies of US Airways and America West Airlines that occurred in September 2005; both United and American Trans Air emerged from bankruptcy in February 2006; Delta emerged from bankruptcy in April 2007; and Northwest remains in bankruptcy and is continuing operations at the Airport. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on the Airport of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines. See "Effect of Bankruptcy of Air Carriers."

Effect of Bankruptcy of Air Carriers

Under the U.S. Bankruptcy Code, a debtor airline that is a lessee under an unexpired lease with the Authority of non-residential real property is required, within certain statutory time periods, to assume or reject such lease. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Authority for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code. The amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the Authority on account of goods and services provided prior to the bankruptcy. Thus, the Authority's stream of payments from a debtor airline would be interrupted to the extent of unpaid fees for pre-petition goods and services, including accrued rent and landing fees. The Authority actively monitors past due balances to minimize any potential losses due to such proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee and terminal rental rates.

Whether or not an airline agreement is assumed or rejected in a bankruptcy proceeding, it is not possible to predict the subsequent level of utilization of the gates leased under such agreement. Decreased utilization of gates could have a material adverse effect on Airport operations, as well as on the Authority's Revenues. In fiscal year 2006, total terminal rentals were $103.0 million or 20.2% of the Authority's Revenues.

Cost of Aviation Fuel

According to the ATA, jet fuel currently comprises 20-30% of the airline industry's operating expenses, overtaking labor as the top cost for most carriers, while historically it only accounted for 10–15% of total airline costs. With fuel doubling as a percentage of costs, fuel prices are a crucial and uncertain determinative of an air carrier's operating economics. Airline earnings are significantly affected by changes in the price of aircraft fuel. Volatility of oil prices continue to be susceptible to, among other factors, natural disasters, hostilities and political unrest in various parts of the world, Organization of the Petroleum Exporting Countries policy, the rapid growth of economies such as China, the levels of inventory carried by industries, the amounts of reserves built by governments,

disruptions to production and refining facilities, and weather. Some U.S. airlines have attempted to pass higher fuel costs to consumers by increasing the fuel surcharge or increasing the price of airfares. Many of these attempts have been unsuccessful as many airlines, particularly the low-cost carriers, refused to match the increase. Significant and prolonged increases in the cost of aviation fuel or any decreases in the availability of aviation fuel are likely to have an adverse impact on air transportation industry profitability and hamper the recovery plans and cost-cutting efforts of the airlines.

Aviation Security Concerns

A terrorist threat or terrorist incident aimed at aviation could have an immediate and significant impact on the demand for aviation services, including, but not limited to, services at the Airport and depress airline industry revenues and the Authority's revenues.

Since September 11, intensified security precautions have been instituted by government agencies, airlines and airport operators. These precautions include the strengthening of aircraft cockpit doors, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the TSA and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

Because of the implementation of the Congressional mandate for the screening of all checked baggage for explosives, as well as the impact on airport operations of procedures mandated under "Code Orange" (high) and "Code Red" (severe) national threat levels declared by the Department of Homeland Security under the Homeland Security Advisory System, there is the potential for significantly increased inconvenience and delays at many airports, although to date only relatively minor delays have been experienced as a result of these enhanced security procedures.

The Boston-Logan International Airport Market Analysis included in APPENDIX B states that historically airline travel demand has recovered from temporary decreases stemming from recessions, carrier liquidations, terrorist attacks and international hostilities. Given the strong origin-destination character of the Airport's market, the travel intensity of Boston area's key industries and the high per capita income of the region, it can be expected that future demand for airline travel at the Airport will depend primarily on economic factors, rather than the financial health of any given air carrier. See APPENDIX B – Boston-Logan International Airport Market Analysis.

Impact of Uncertainties of the Airline Industry on the Airport

As discussed in the Airport Market Analysis attached as APPENDIX B, the factors affecting aviation activity at the Airport include: the growth of population and of the economy in the Boston Secondary Market Service Area, airline service and route networks, the financial health and viability of the airline industry, national and international economic and political conditions, the availability and price of aviation fuel, levels of air fares, the capacity of the national air traffic control system and airport capacity at the Airport and elsewhere. See APPENDIX B – Boston-Logan International Airport Market Analysis. The Airport Market Analysis should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that these or any of the other assumptions contained in the Airport Market Analysis will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "MARKET ANALYSIS AND REVIEW OF AIRPORT NET REVENUES" herein and APPENDIX B – Boston-Logan International Airport Market Analysis hereto. See also "Aviation Security Concerns."

Environmental Regulations

The FAA has jurisdiction over aviation operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Under the FAA's noise reduction regulations, the air transportation industry was required to modify substantial numbers of its existing aircraft. Airport noise remains a significant federal and local issue at certain airports, including the Airport, which may require substantial capital investments by the industry and/or airport operators, including the Authority, from time to time to meet applicable standards. The EPA is ultimately responsible for regulating air quality and water quality. As these are areas of increasing focus, the potential exists for additional federal regulation that may require capital expenditures or changes in operations at the Authority's facilities. See "CAPITAL PROGRAM – Logan Airport Improvements – Residential Sound Insulation Program."

LITIGATION

No litigation is pending or, to the knowledge of the Authority, threatened against or affecting the Authority seeking to restrain or enjoin the issuance, sale or delivery of the 2007 PFC Bonds or in any way contesting or affecting the validity of the 2007 PFC Bonds.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, New York. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11 could file a claim with a newly created Victim Compensation Fund (the "*Fund*"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

In November 2001, Congress passed the ATSA, which provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of September 11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that … airport sponsor." The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence, and consequently, under ATSA, the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual or entity claiming to have suffered a loss. Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims, although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

As of March 31, 2007, there were approximately 24 wrongful death lawsuits, two personal injury lawsuits, 13 property damage lawsuits and four cross claims against the Authority and other defendants. A number of other wrongful death lawsuits against the Authority and other defendants have been settled. These settlements have been achieved without any financial contribution from the Authority or its insurer though the settling plaintiffs have provided the Authority with a release of all claims related to the events of September 11.

The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "*WTC*"), World Trade Center Properties, LLC, the lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations of any such lawsuits expired on September 11, 2004.

Absent the limitation on liability in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based upon the total liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

On March 17, 2006, the Authority was served with a class action complaint by Bridge users who are non-recipients of the Fast Lane transponder resident toll discounts, alleging unspecified damages arising from Fast Lane transponder toll discounts for residents of Chelsea and Charlestown who use the Bridge. While the complaint does not specify the amount of damages alleged, the Authority believes that the damages sought could be significant. On May 3, 2007, the Massachusetts Superior Court granted the Authority's motion to dismiss the complaint. The plaintiffs have 60 days to file an appeal of the dismissal. While the Authority cannot predict the outcome of an appeal, the Authority believes it has meritorious defenses in this action, and it will continue to vigorously defend against the various claims asserted. The Authority does not believe that the outcome will materially affect the Authority's results of operations or financial condition.

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with employees; disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; and property, theft and damage claims arising from the Authority's parking operations, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will have a material effect on the operations or financial position of the Authority.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by UBS Securities LLC on behalf of the Authority relating to the computation of forecasted receipts of principal of and interest on the securities on deposit in the PFC Refunding Escrow Fund and the forecasted payments of principal and interest to redeem the Refunded PFC Bonds was examined by The Arbitrage Group, Inc. Such computations were based solely upon schedules and information supplied by UBS Securities LLC on behalf of the Authority. The Arbitrage Group, Inc. has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

TAX EXEMPTION

In the opinion of Bond Counsel, under existing law, interest on the 2007 PFC Bonds is not included in gross income for federal income tax purposes. See APPENDIX F – Form of Opinion of Bond Counsel. Interest on the 2007 PFC Bonds is not treated as an item of tax preference for purposes of calculating the alternative minimum tax imposed on certain taxpayers; however, interest on the 2007 PFC Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. Bond Counsel expresses no opinion as to other federal tax consequences resulting from holding the 2007 PFC Bonds.

The Internal Revenue Code of 1986, as amended (the "*Code*"), imposes certain restrictions and requirements relating to the exclusion from federal gross income of interest on obligations such as the 2007 PFC Bonds, including restrictions on the use and investment of proceeds of the 2007 PFC Bonds and the requirement of the payment of rebate to the federal government in certain situations. The Authority has made certain representations and covenants with respect to such restrictions and requirements imposed by the Code. Inaccuracy of these representations or failure to comply with these covenants could cause interest on the 2007 PFC Bonds to become subject to federal income taxation, retroactive to the date of their issuance. Bond Counsel has relied upon such representations and covenants in rendering its opinion.

Potential purchasers should be aware of certain potential collateral consequences under federal tax law for holders of the 2007 PFC Bonds. Interest on the 2007 PFC Bonds is included in the measure of the foreign branch profits tax imposed upon certain foreign corporations and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. Interest on the 2007 PFC Bonds may be included in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest received by such companies on the 2007 PFC Bonds, and no deduction will be allowed for interest on indebtedness incurred or continued to purchase or carry the 2007 PFC Bonds or, in the case of a financial institution, that portion of such institution's interest expense that is allocated to interest on the 2007 PFC Bonds.

In the opinion of Bond Counsel, interest on the 2007 PFC Bonds and any profit made from their sale are exempt under existing law from Massachusetts personal income taxes, and the 2007 PFC Bonds are exempt from Massachusetts personal property taxes. Prospective purchasers should be aware that the statutory framework on which this exemption from Massachusetts taxation is based is similar to that at issue in Department of Revenue of Kentucky v. Davis, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted 550 U.S. ___ (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding municipal obligations, including the 2007 PFC Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal obligations, either of which could affect the market price of the 2007 PFC Bonds. Bond Counsel expresses no opinion as to other Massachusetts tax consequences with respect to the 2007 PFC Bonds. Potential purchasers should be aware, however, that the 2007 PFC Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the 2007 PFC Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the tax consequences under the laws of any state other than The Commonwealth of Massachusetts with respect to the 2007 PFC Bonds.

For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a 2007 PFC Bond is generally equal to the excess, if any, of the stated redemption price at maturity of such 2007 PFC Bond over its initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all 2007 PFC Bonds with the same maturity was sold. Original issue discount accrues actuarially over the term of a 2007 PFC Bond. Holders should consult their own tax advisers about the computation and consequences of original issue discount.

The excess, if any, of the tax basis of the 2007 PFC Bonds to a purchaser (other than a purchaser who holds such 2007 PFC Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." For federal income tax purposes, bond premium is amortized over the term of the 2007 PFC Bonds, is not deductible and reduces the purchaser's adjusted tax basis. 2007 PFC Bond purchasers should consult their tax advisers about the tax consequences of bond premium.

Payments of interest on, and proceeds of the sale, redemption or retirement of, tax-exempt obligations such as the 2007 PFC Bonds are required to be reported to the Internal Revenue Service in certain cases. In addition, such payments and proceeds may be subject to backup withholding if paid to a bondholder that (i) fails to provide an accurate Form W-9, "Request for Taxpayer Identification Number and Certification," or valid substitute form, or (ii) has been notified by the Internal Revenue Service of a failure to report all interest and dividends. The reporting and backup withholding requirements do not affect the excludability of interest on the 2007 PFC Bonds from gross income for federal income tax purposes.

No assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the

2007 PFC Bonds. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2007 PFC Bonds may adversely affect the value of, or the tax status of interest on, the 2007 PFC Bonds.

On the date of delivery of the 2007 PFC Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as APPENDIX F – Form of Opinion of Bond Counsel.

ELIGIBILITY FOR INVESTMENT

The Enabling Act provides that the 2007 PFC Bonds are eligible for investment by all Massachusetts insurance companies, trust companies in their commercial departments, banking associations, executors, trustees and other fiduciaries.

RATINGS

The Insured Bonds are expected to be assigned ratings of "AAA" by Fitch Ratings ("*Fitch*"), "Aaa" by Moody's Investors Service, Inc. ("*Moody's*") and "AAA" by Standard & Poor's ("*S&P*"), respectively, based on the Bond Insurance Policy provided by the Bond Insurer. See "BOND INSURANCE." The 2007 PFC Bonds have been assigned ratings of "A+" by Fitch, "A2" by Moody's and "A" by S&P, without regard to the Bond Insurance Policy. Such ratings reflect only the respective views of such organizations and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any or all of such rating agencies if, in its or their judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 PFC Bonds.

FORWARD LOOKING STATEMENTS

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances affecting airports and the airline industry, many of which are beyond the control of the Authority. These forward-looking statements speak only as of the date of this Official Statement. The Authority disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Authority's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

CERTAIN LEGAL MATTERS

The unqualified approving opinion of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel to the Authority, will be furnished upon delivery of the 2007 PFC Bonds; the proposed form of such opinion is set forth in APPENDIX F. Certain legal matters will be passed on for the Authority by David S. Mackey, Esquire, its Chief Legal Counsel, and by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, its Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

INDEPENDENT AUDITORS

The financial statements of the Authority as of and for the year ended June 30, 2006 and comparative data for fiscal years 2005 and 2004 included in APPENDIX A of this Official Statement have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing in APPENDIX A.

MARKET ANALYSIS AND REVIEW OF AIRPORT PFC REVENUES

The Boston-Logan International Airport Market Analysis set forth in APPENDIX B was prepared by Simat, Helliesen & Eichner, Inc., Cambridge, Massachusetts, in connection with the issuance of the 2007 PFC Bonds and the 2007 Bonds. Such study is set forth herein in reliance upon the knowledge and experience of such firm as airport consultants.

The Review of PFC Revenue Forecasts set forth in APPENDIX C was prepared by Jacobs Consultancy Inc., Burlingame, California in connection with the issuance of the 2007 PFC Bonds. The review should be read in its entirety for an understanding of the forecasts and the key assumptions therein. Such review is set forth herein in reliance upon the knowledge and experience of such firm as airport financial consultants.

UNDERWRITING

The 2007 PFC Bonds are being purchased by UBS Securities LLC, Goldman, Sachs & Co., Merrill Lynch & Co., and Siebert Brandford Shank & Co., LLC (collectively, the "*Underwriters*"), for whom UBS Securities LLC is acting as representative. The Underwriters have agreed, subject to certain conditions, to purchase all of the 2007 PFC Bonds from the Authority at an aggregate underwriters' discount from the initial public offering prices or yields set forth on page (i) hereof equal to $514,926.22 and to reoffer such 2007 PFC Bonds at public offering prices not higher than or at yields not lower than those set forth on page (i) hereof. The Underwriters are obligated to purchase all such 2007 PFC Bonds, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The 2007 PFC Bonds may be offered and sold by the Underwriters to certain dealers (including dealers depositing such 2007 PFC Bonds in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the public offering prices (or yields) set forth on page (i) of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering prices (or yields) as they may deem necessary in connection with the offering of such 2007 PFC Bonds.

FINANCIAL ADVISOR

Government Finance Associates, Inc. (the "*Financial Advisor*") serves as independent financial advisor to the Authority on matters relating to debt management. The Financial Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. The Financial Advisor has provided advice as to the plan of financing and the structuring of the 2007 PFC Bonds and has reviewed and commented on certain legal documentation, including this Official Statement. The advice on the plan of financing and the structuring of the 2007 PFC Bonds was based on materials provided by the Authority and other sources of information believed to be reliable. The Financial Advisor has not audited, authenticated or otherwise verified the information provided by the Authority or the information set forth in this Official Statement or any other information available to the Authority with respect to the appropriateness, accuracy or completeness of disclosure of such information or other information and no guarantee, warranty or other representation is made by the Financial Advisor respecting the accuracy and completeness of or any other material related to such information and this Official Statement.

CONTINUING DISCLOSURE

The Authority has undertaken for the benefit of the owners of the 2007 PFC Bonds to provide certain continuing disclosure pursuant to the provisions of Rule 15c2-12(b)(5) under the Securities Exchange Act of 1934 (as amended, the "*Rule*"). Specifically, the Authority and The Bank of New York, as Dissemination Agent, have executed and delivered the PFC Continuing Disclosure Agreement for the benefit of the owners of all bonds (including the 2007 PFC Bonds) issued by or on behalf of the Authority that are designated by resolution of the Authority as subject to and having the benefits of the PFC Continuing Disclosure Agreement. The PFC Continuing Disclosure Agreement requires the Authority to provide, or cause to be provided, annual financial information and

operating data and notices of material events with respect to the the 2007 PFC Bonds in accordance with the Rule. The form of the PFC Continuing Disclosure Agreement is set forth in APPENDIX E hereto.

In order to provide certain continuing disclosure with respect to the 2007 PFC Bonds in accordance with the Rule, the Authority has also entered into an Agreement for the benefit of the Holders of the 2007 PFC Bonds with Digital Assurance Certification, L.L.C. ("*DAC*"), under which the Authority has designated DAC as Disclosure Dissemination Agent.

As of the date hereof, the Authority is in full compliance with the terms of each of its continuing disclosure undertakings.

The execution and delivery of this Official Statement have been duly authorized by the Authority.

MASSACHUSETTS PORT AUTHORITY

By: /s/ *John A. Quelch*
John A. Quelch, Chairman

By: /s/ *Thomas J. Kinton, Jr.*
Thomas J. Kinton, Jr., Chief Executive Officer and
Executive Director

PRICEWATERHOUSECOOPERS

Report of Independent Auditors

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and of cash flows of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) which collectively comprise the Authority's basic financial statements, present fairly, in all material respects, the respective financial position of the Authority at June 30, 2006 and June 30, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management's Discussion and Analysis on pages 3 through 18 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information presented on pages 61 to 64 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 2, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the year ended June 30, 2006 ("fiscal year 2006" or "FY06") with selected comparative information for the year ended June 30, 2005 ("fiscal year 2005" or "FY05") and for the year ended June 30, 2004 ("fiscal year 2004" or "FY04"). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section. Management has established and maintains controls and procedures designed to ensure that material information required to be disclosed by the Authority in its annual financial statements is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures are adequate in order to record, process, summarize and report to management in a timely manner material information required to be disclosed by the Authority in its annual financial statements.

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act"), and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds. The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. The Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port") located in Charlestown, South Boston, and East Boston. The Authority also operates the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority and the City of Worcester, Massachusetts and the Worcester Airport Commission.

Logan Airport is the most active airport in New England and provides both international and domestic commercial service. It is the primary source of the Authority's revenues and net revenues. Hanscom Field is the region's premier general aviation airport and provides niche commercial service. Worcester Regional Airport serves the air transport needs of Massachusetts's second largest city. The Port of Boston is New England's major port and provides a full range of services, from cruise ship to container ship handling. The Bridge is one of Greater Boston's primary cross-harbor roadway connections and is a part of U.S. Route 1. In addition to operating its facilities, the Authority is committed to providing the modern transportation infrastructure necessary to support the needs of Boston, Massachusetts and New England.

The Authority is self-supporting and uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, Bridge tolls, ground rents, and other fees and charges to

fund operating expenses. The Authority has no taxing power and is not taxpayer funded. The Authority's capital program is funded by bonds and notes issued by the Authority, federal grants, and Authority revenues, including passenger facility charges ("PFCs"). The Authority's bonds are secured solely by the Authority's revenues.

The Financial Statements

The Authority's financial report includes three financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The Balance Sheets demonstrate that the Authority's assets equal liabilities plus net assets. The net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The component of net assets comprising invested in capital assets, net of related debt, includes restricted capital assets, is net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvement of those assets.

The Statements of Revenues, Expenses and Changes in Net Assets categorize revenues and expenses as either operating or non-operating based upon management's policy, as defined by the Enabling Act and the 1978 Trust Agreement, as to what constitutes the Authority's primary operations. Certain sources of the Authority's revenues, including PFCs, investment income and capital grants are reported as non-operating revenues and their use is restricted. Operating revenue for the years ended June 30, 2006, 2005 and 2004 totaled $497.6, $460.6 and $415.0 million, respectively. Operating expense for the years ended June 30, 2006, 2005 and 2004 totaled $453.8, $420.6 and $381.3 million, respectively. In fiscal year 2006, the Authority had net non-operating expenses of $5.4 million comprised of revenues of $69.9 million and expenses of $75.3 million. In fiscal year 2005, the Authority realized net non-operating expenses of $12.7 million comprised of revenues of $52.2 million and expenses of $64.9 million and in fiscal year 2004, the Authority realized net non-operating expenses of $15.7 million, comprised of revenues of $44.1 million and expenses of $59.8 million. Capital grant revenues for the years ended June 30, 2006, 2005 and 2004 are $36.2, $47.7 and $90.1 million, respectively.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents on June 30, 2006 had a book value of $111.2 million. The comparable figures for June 30, 2005 and June 30, 2004 were $181.9 million and $117.8 million, respectively.

Authority's Management Highlights

During fiscal year 2006 the growth of passengers at Logan International Airport moderated as the total climbed to just below the pre-September 11, 2001 ("9/11") figure. In fiscal year 2006, a total of 27.4 million passengers traveled through Logan Airport, compared to 27.7 million in fiscal year 2000. Compared to the prior fiscal year, the number of passengers at Logan Airport increased by 2.2% in fiscal year 2006, while between fiscal year 2004 and fiscal year 2005 the number climbed by 9.4%. During fiscal year 2006, management focused on completing new facilities to better accommodate Logan's increasing number of passengers. The new Terminal A facility, new airport roadways, a new airport public mass transit station (built by the Massachusetts Bay Transportation Authority ("MBTA")), and Silver Line bus service to South Boston and to South Station (operated in collaboration with the MBTA)

saw their first complete year of operation. Construction also continued on two other key projects during fiscal year 2006: Runway 14/32, a unidirectional runway with operations solely over Boston Harbor, reached the 65% construction completion mark. At the Central Garage, 1,400 new public parking spaces were opened to the public on March 15, 2006 as a major phase of construction was completed on the repair and expansion of the Central Garage. The total project, which will add three floors containing 2,800 new spaces and improved customer amenities, is 73% complete. A convenient new parking payment system, Exit Express, coupled with a preferred parker card and reservation system (Parking PASSport) have been installed and 77% of Logan's parkers now use this system. The Logan construction agenda also focused on security infrastructure projects including improved access control and perimeter security measures.

Staff renegotiated all three statutorily required Payment-in-Lieu-of-Tax ("PILOT") agreements with the cities of Boston and Chelsea and the Town of Winthrop during fiscal year 2006. The Boston agreement has a ten year term and an estimated value of $167 million. The Winthrop agreement extends for 20 years with an estimated value of $18 million and Chelsea's five year agreement addendum will cost approximately $3 million. These agreements should provide long term fiscal stability for both the Authority and the communities, while improving Massport's relationships with its neighbors.

In May 2006, Craig P. Coy announced his resignation as Executive Director and CEO effective June 30, 2006 following four years and two months of service at Massport. Under his leadership, Massport became a leader in transportation security and reorganized its business model to reflect a corporate approach based on thirteen business lines in three operating departments, each with separate profit and loss reporting. Following Mr. Coy's announcement, the Massport Board immediately initiated a search to select his replacement. On August 2, the Board appointed Thomas J. Kinton, Jr. as permanent Executive Director and CEO and granted him a five-year employment contract. Mr. Kinton has dedicated his career to Massport, having worked his way up through the ranks of the Aviation Department where he has served as Director of Aviation since 1993 and has been nationally recognized for excellence in airport management. He has also been chosen twice to provide interim leadership for the Authority prior to this permanent appointment.

Authority's Activity Highlights

Aviation Activity. Since the late fall of 2003, Logan Airport has seen steady improvement in passenger activity. Aviation passenger traffic at Logan Airport increased 2.2% during fiscal year 2006 to 27.4 million passengers. During fiscal year 2005 passenger traffic at Logan grew to 26.9 million passengers (including general aviation) 9.4% over fiscal year 2004 levels. In contrast, aircraft operations (take-offs and landings) decreased by 2.6% in fiscal year 2006 from fiscal year 2005. This contrasted with the 7.1% increase during fiscal year 2005 over fiscal year 2004. Landed weights for fiscal year 2006 were 20,376,000 thousand pounds, a 2.1% decrease from fiscal year 2005, while fiscal year 2005 landed weights of 20,822,000 thousand pounds had shown an increase of 4.8% from fiscal year 2004. These statistics demonstrate that the airlines are accommodating the growth in passengers with fewer flights. During fiscal year 2006, Logan introduced a direct billing system for landing fees based on radar recordings of the tail numbers of each plane landing at Logan. This replaced the previous system, in place at most airports, of landing fee collections based upon self-reported payments from the air carriers.

The Authority also expanded the pay on foot program, Exit Express, to the Central Garage at the start of fiscal year 2006. This program sped customers' departure from the garage and reduced the amount of cash handled by the cashiers. By the end of fiscal year 2006, the overall utilization rate for Exit Express reached 77%, a marked increase over the 63% rate utilization seen at the start of fiscal year 2006.

Maritime Activity. Activity and results at the Port of Boston also reflected continued growth. In fiscal year 2006, container volume reached 111,020 containers, a 7.1 % increase over fiscal year 2005 volume, which was in turn a 10.7% increase over fiscal year 2004. This growth was primarily a result of new Far-East service provided by CKYH partners (COSCO, K-Line, Yang Ming and Hanjin). In fiscal year 2006, the Black Falcon Cruise Terminal handled 246,365 passengers on 100 ship calls. The total number of cruise passengers increased in fiscal year 2006 by 27.7% compared to fiscal year 2005, while fiscal year 2005 was 4.0% less than fiscal year 2004. Automobiles processed at the Port in fiscal year 2006 increased by 4.8% from fiscal year 2005, while fiscal year 2005 was 12.6% less than fiscal year 2004. In fiscal year 2006, bulk tonnage increased to 202,681 tons or 6.9% greater than the fiscal year 2005 figure, which in turn was 31.3% greater than fiscal year 2004.

Bridge Activity. During fiscal year 2006, Tobin Bridge vehicle traffic grew to 10,041,640 vehicles, a 3.3% increase over fiscal year 2005. For fiscal year 2005, total vehicle traffic was 9,723,213, a decrease of 11.5% from fiscal year 2004. The drop in fiscal year 2005 traffic was an anticipated result of a toll rate increase in April 2004. The Bridge carries an average of 27,500 in-bound (revenue-paying) and 43,500 out-bound (non-revenue) vehicles per day. Since the Bridge deployed electronic toll collection devices ("ETC") in November of 1999, ETC usage has steadily improved to 48% of overall usage and 59% during the rush hour period (6:00am to 9:30am).

Security Initiatives. The Authority has always had a strong security program, and since September 11, 2001, it has undertaken numerous new security initiatives including the terminal modifications required to house the Transportation Security Administration's 100% baggage screening system. During fiscal year 2006 construction continued on a new access control system at Logan and on various boundary security measures. In fiscal year 2005, Air Safety Week's Airport Security Report awarded Logan Airport its "Exceptional Performance in Airport Security Award".

On July 1st, 2004, the standards for maritime security increased dramatically. The Authority's new formal Maritime Security Plans for each of its maritime facilities were completed and submitted to the United States Coast Guard. As of June 30, 2006, the Authority has completed over $1.5 million dollars worth of capital improvements at its port facilities to improve all aspects of perimeter security, access control, emergency power and lighting, and vehicle penetration protection. A formal audit in 2005 by the Coast Guard found the Authority's maritime operations to be in full compliance with all aspects of the new security standards.

The Authority continues to place the highest priority on protecting the traveling public and ensuring that its facilities – Logan Airport, Hanscom Field, the Port and the Tobin Bridge – are safe and secure.

Condition of the Air Carriers

Growth in Low Fare Carriers. Throughout fiscal year 2006, Logan Airport's six low cost carriers - AirTran, America West, ATA, Independence Air (which liquidated during the fiscal year), JetBlue, and Song – grew to handle 23.0% of Logan Airport's passengers, compared with 20.6% in fiscal year 2005 and 15.4% in fiscal year 2004. This group of carriers increased the number of passengers they carried at Logan Airport by 14.1% compared with their performance in fiscal year 2005, while Logan passenger traffic as a whole grew by 2.2%. During fiscal year 2006 JetBlue was Logan Airport's fourth largest carrier in terms of passenger share and AirTran was sixth. Logan Airport's low cost carriers provide low fare options mirroring the diversity of all air carriers that has long characterized the Airport's air service market.

Airline Bankruptcies. The economic stress facing the airline industry has been exacerbated by high fuel prices. The financial stress on the legacy air carriers, all of which operate at Logan Airport, continues

with two major airlines, Delta Airlines ("Delta") and Northwest Airlines ("Northwest") filing for bankruptcy protection on September 14, 2005. Throughout fiscal year 2006, Delta and Northwest made post-petition terminal rental and landing fee payments. As of September 30, 2006, these two major airlines are continuing to operate at Logan Airport under bankruptcy protection. During fiscal year 2006, US Airways and United Air Lines ("United") emerged from bankruptcy protection. US Airways filed a Plan of Reorganization (the "Plan") with the bankruptcy court which was approved and made effective on September 27, 2005. The Plan is based on a merger with America West Airlines and, as part of the Plan, US Airways and its affiliates has assumed all Authority leases and executory contracts. United filed a reorganization plan with the bankruptcy court which was approved and made effective on February 1, 2006 under which United assumed all Authority leases and executory contracts. Delta, and Northwest, together, accounted for 19.8% of the passengers at Logan Airport in fiscal year 2006 (Delta 15.0%, and Northwest 4.8%). In order to minimize any potential losses, the Authority actively monitors past due balances due to bankruptcy proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee rates.

Logan Airport Enplanements and Operations Activity for FY 2006, 2005 & 2004

	2006	2005	2004
Enplanements			
Domestic	11,590,220	11,251,713	10,195,648
International	2,071,481	2,129,374	2,040,079
General Aviation	58,315	60,687	43,234
Total Enplanements	13,720,016	13,441,774	12,278,961
Aircraft Operations (take-offs and landings)	402,551	413,337	386,021
Landed Weights (1,000 pounds)	20,376,000	20,822,000	19,864,000

Financial Highlights

The financial results for fiscal year 2006 showed steady improvement over the prior year. Operating income of $43.8 million was $3.9 million or 9.7% greater than the operating income of fiscal year 2005 and $10.1 million or 30.1% greater than that of fiscal year 2004. As of June 30, 2006, the Authority had net assets of $1,391.5 million, an increase of $74.6 million or 5.7% over fiscal year 2005 and of $149.6 million or 12.0% over fiscal year 2004. These results are attributed to a variety of factors, primarily the return of passengers to near pre-9/11 levels. The Authority carefully managed the revenues and costs within its control with an emphasis on increasing and diversifying non-airline revenues. The expense controls introduced in the financial recovery plan for fiscal year 2002 and the focus on reducing administrative expenses were continued through fiscal year 2006, during which the Authority successfully implemented an additional program of expense reductions to offset the rising cost of energy and the increased cost of State Police services resulting from a new union contract.

Summaries of revenues and expenses, calculated according to Generally Accepted Accounting Principles ("GAAP"), for fiscal year 2006 as compared to fiscal year 2005, and fiscal year 2005 as compared to fiscal year 2004, are set forth below. Operating grant revenues were $3.5 million during fiscal year 2006, $5.5 million during fiscal year 2005 and $4.9 million during fiscal year 2004. These payments primarily represented a reimbursement for a portion of the incremental operating costs associated with enhanced security services.

The fiscal year 2006 operating revenues for the Authority were $497.6 million, an increase of $37.1 million when compared to fiscal year 2005 and $82.7 million when compared to fiscal year 2004. This result is largely attributable to increases in terminal rentals, utility charges, Maritime container fees, and investment income. The data presented herein include comparative information for fiscal years 2005 and 2004.

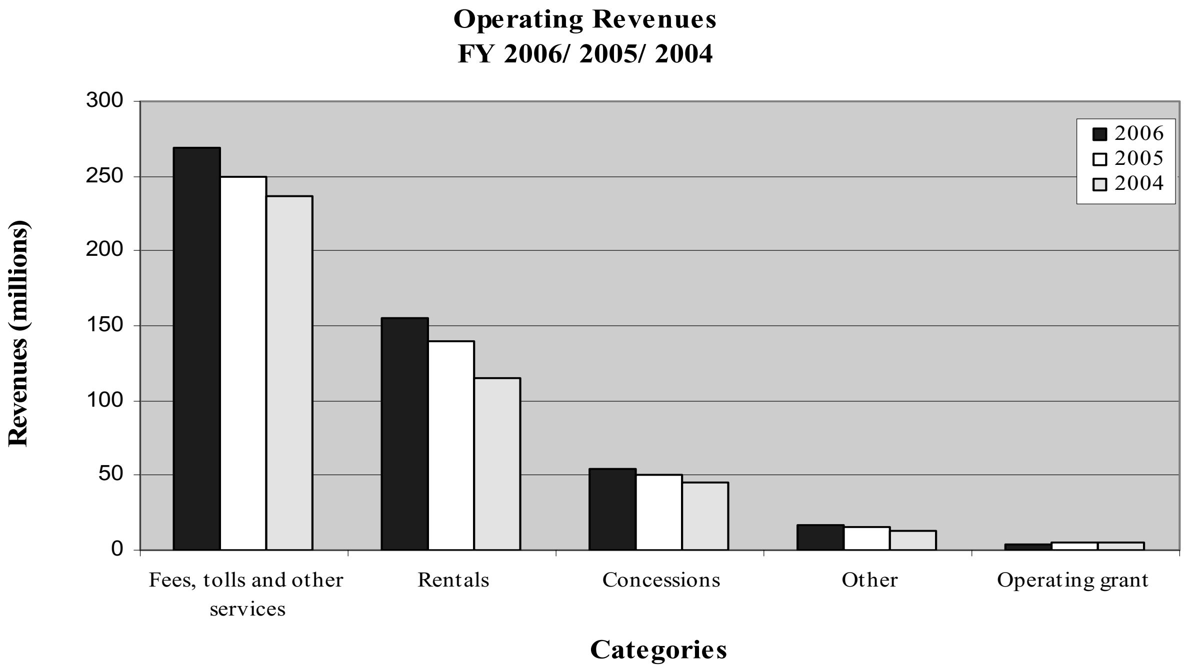
Operating Revenues (in millions)	2006	2005	Increase (Decrease) from 2005	Percent of Increase (Decrease) from 2005
Operating				
Fees, tolls and other services	$ 268.7	$ 249.3	$ 19.4	8%
Rentals	155.0	139.7	15.3	11%
Concessions	53.7	49.9	3.8	8%
Other	16.8	16.1	0.7	4%
Operating grant	3.5	5.5	(2.0)	-36%
Total	$ 497.6	$ 460.6	$ 37.0	8%

Column totals might not add due to rounding.

Operating Revenues (in millions)	2005	2004	Increase (Decrease) from 2004	Percent of Increase (Decrease) from 2004
Operating				
Fees, tolls and other services	$ 249.3	$ 236.3	$ 13.0	6%
Rentals	139.7	115.2	24.5	21%
Concessions	49.9	45.1	4.8	11%
Other	16.1	13.5	2.6	19%
Operating grant	5.5	4.9	0.6	12%
Total	$ 460.6	$ 415.0	$ 45.6	11%

Column totals might not add due to rounding.

The following is a graphic illustration of operating revenues calculated in accordance with GAAP by source for the years ended June 30, 2006, 2005 and 2004:



The fiscal year 2006 operating expenses for the Authority were $453.8 million, an increase of $33.2 million over fiscal year 2005 and $72.5 million over fiscal year 2004. Expense growth during this period was driven by increased depreciation resulting from placing several new major capital projects in service over the fiscal year; the operation and maintenance of these new facilities; new PILOT agreements, a new union contract for the State Police, and rising energy costs. During fiscal year 2006, the Authority's 10-year, fixed-rate contract for electricity expired. The Authority rebid its electricity purchases and entered into a five year variable-rate contract, under which the price of electricity for a significant portion of the Authority's purchases may be fixed for certain periods at the Authority's option. The Authority's staff used this discretion to reduce the Authority's electricity cost during fiscal year 2006 below the expectations discussed with the Board in October 2005 when the contract was approved.

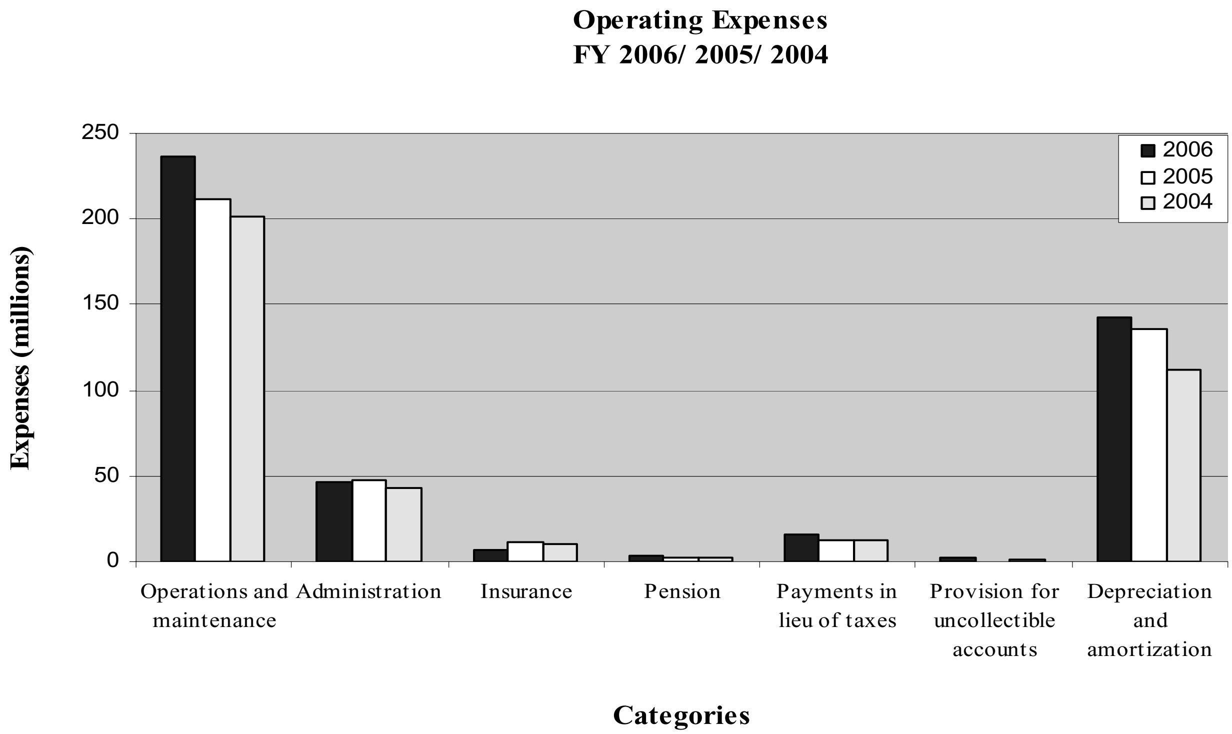
Operating Expenses (in millions)	**2006**	**2005**	**Increase (Decrease) from 2005**	**Percent of Increase (Decrease) from 2005**
Operating				
Operations and maintenance	$ 236.4	$ 211.9	$ 24.5	12%
Administration	46.7	47.0	(0.3)	-1%
Insurance	6.6	11.2	(4.6)	-41%
Pension	3.7	2.1	1.6	76%
Payments in lieu of taxes	15.8	12.0	3.8	32%
Provision for uncollectible accounts	2.6	0.3	2.3	767%
Depreciation and amortization	142.1	136.0	6.1	4%
Total	$ 453.8	$ 420.6	$ 33.2	8%

Column totals might not add due to rounding.

Operating Expenses (in millions)	**2005**	**2004**	**Increase (Decrease) from 2004**	**Percent of Increase (Decrease) from 2004**
Operations and maintenance	$ 211.9	$ 201.4	$ 10.5	5%
Administration	47.0	43.1	3.9	9%
Insurance	11.2	10.2	1.0	10%
Pension	2.1	1.8	0.3	17%
Payments in lieu of taxes	12.0	12.4	(0.4)	(3%)
Provision for uncollectible accounts	0.3	0.6	(0.3)	(50%)
Depreciation and amortization	136.0	111.7	24.3	22%
Total	$ 420.6	$ 381.3	$ 39.4	10%

Column totals might not add due to rounding.

The following is a graphic illustration of the total operating expenses calculated in accordance with GAAP by type for the years ended June 30, 2006, 2005 and 2004:



Changes in Net Assets

The change in net assets is an indicator of whether the overall financial condition of the Authority has improved or declined during the year. The changes in net assets for the years ended June 30, 2006, 2005 and 2004 were increases of $74.6 million, $75.0 million and $108.1 million, respectively. Operating income for fiscal year 2006 of $43.8 million was $3.9 million or 9.7% greater than fiscal year 2005 and $10.1 million or 30.1% greater than fiscal year 2004. Non-operating revenues include PFCs and investment income. PFC revenues in fiscal year 2006 of $48.3 million were 36.8% greater than PFC revenues of $35.3 million in fiscal year 2005 and 47.1% greater than PFC revenues of $32.8 million in fiscal year 2004 largely due to the change of the collection rate from $3.00 to $4.50 per eligible passenger, effective October 1, 2005. Investment income increased to $20.6 million in fiscal year 2006 from $13.5 million in fiscal year 2005 and from $10.2 million in fiscal year 2004. Factors in the increase were: rising interest rates, the increase in the size of the portfolio that resulted from the issuance of the 2005 bonds and the rise in PFC collections; and the implementation of a new banking structure which increased the yield on working capital. Non-operating revenues also include receipts of various settlement claims in fiscal year 2006 of $0.4 million and in fiscal year 2005 of $3.4 million. Non-operating expenses of $75.3 million increased by $10.4 million over fiscal year 2005 and increased by $15.4 million over fiscal year 2004, primarily due to an increase in interest expense associated with an end to the capitalized interest on certain projects and a decrease in the fair market value of investments. The net non-operating revenues and expenses were a net expense of $5.4 million in fiscal year 2006, in contrast to a net expense of $12.7 million in fiscal year 2005 and a net expense of $15.7 million in fiscal year 2004. Capital grant revenue for fiscal year 2006 was $36.2 million, and includes $22.1 million in FAA grants for airfield improvements and $8.9 million in FAA grants for residential soundproofing. Fiscal year 2006 capital grant revenue is 24.1% less than fiscal year 2005 with capital grant revenue of

$47.7 million and 59.8% less than fiscal year 2004 with capital grant revenue of $90.1 million. The change reflects the atypically large grant receipts realized in fiscal year 2005 and particularly in fiscal year 2004 from the TSA and the FAA in support of the Authority's $146 million construction program to house the TSA's hold baggage screening system.

The following is the Statement of Revenues, Expenses and Changes in Net Assets:

	(in millions)		
	2006	**2005**	**2004**
Operating Revenues:			
Fees, tolls and other services	$ 268.7	$ 249.3	$ 236.3
Rentals	155.0	139.7	115.2
Concessions	53.7	49.9	45.1
Other	16.8	16.1	13.5
Operating grants	3.5	5.5	4.9
Total Operating Revenues	497.6	460.6	415.0
Operating Expenses:			
Operations and maintenance	(236.4)	(211.9)	(201.4)
Administration	(46.7)	(47.0)	(43.1)
Insurance	(6.6)	(11.2)	(10.2)
Pension	(3.7)	(2.1)	(1.8)
Payments in lieu of taxes	(15.8)	(12.0)	(12.4)
Provision for uncollectible accounts	(2.6)	(0.3)	(0.6)
Depreciation and amortization	(142.1)	(136.0)	(111.7)
Total Operating Expenses	(453.8)	(420.6)	(381.3)
Operating Income	43.8	39.9	33.7
Non-Operating Revenues (Expenses):			
Passenger facility charges	48.3	35.3	32.8
Investment income	20.6	13.5	10.2
Net change in the fair value of investments	(2.9)	-	-
Other revenues	0.4	-	-
Settlement of claims	0.4	3.4	1.0
Other expense	(2.8)	(0.2)	(0.2)
Gain on sale of equipment	0.1	0.1	-
Interest expense	(69.6)	(64.6)	(59.7)
Total Non-Operating Revenues (Expenses)	(5.4)	(12.7)	(15.7)
Capital Grant Revenue	36.2	47.7 *	90.1 **
Increase in Net Assets	$ 74.6	$ 75.0	$ 108.1

* Includes $20 million invoice to TSA.
** Includes $58 million received from TSA.

Column totals might not add due to rounding.

Balance Sheets

The balance sheets present the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at June 30, 2006, 2005 and 2004 is as follows:

	(in millions) 2006	2005	2004
Assets			
Current assets	$ 527.6	$ 586.0	$ 448.7
Non-current assets			
Capital assets, net	2,464.1	2,341.3	2,194.2
Other non-current assets	231.6	303.4	260.8
Total Assets	$ 3,223.3	$ 3,230.6	$ 2,903.7
Liabilities			
Current liabilities	$ 268.8	$ 294.7	$ 218.1
Non-current liabilities			
Long term debt outstanding	1,518.4	1,572.5	1,385.4
Other non-current liabilities	44.6	46.5	58.4
Total Liabilities	1,831.8	1,913.7	1,661.8
Net Assets			
Invested in capital assets, net of debt	814.2	772.9	772.5
Restricted:			
Bond funds	163.2	161.1	134.2
Project funds	183.7	148.7	127.8
Passenger facility charges	48.3	50.5	44.5
Other purposes	100.7	106.7	96.1
Total restricted	495.9	467.0	402.6
Unrestricted	81.4	76.9	66.8
Total net assets	1,391.5	1,316.8	1,241.9
Total Liabilities and Net Assets	$ 3,223.3	$ 3,230.6	$ 2,903.7

Column totals might not add due to rounding.

The Authority ended fiscal year 2006 with assets of $3.2 billion, and with liabilities of $1.8 billion and net assets of $1.4 billion.

As of June 30, 2006 the Authority has investments in facilities of $2,464.1 million, including both fully completed facilities and construction-in-progress, an increase of $122.8 million from 2005 and $269.8 million from 2004. The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority revenues, PFCs and capital contributions from federal grants. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are recorded at cost.

Long-term debt outstanding decreased by $54.1 million as no new debt was issued in fiscal year 2006 and principal payments were made on the existing long term debt. Current liabilities decreased by $25.9

million, with a sizeable decrease in accounts payable partially offset by the increase in commercial paper, current maturities of funded debt and other items.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $1,391.5 million at June 30, 2006, an increase of $74.6 million from fiscal year 2005 and $149.6 million from fiscal year 2004. Those net assets invested in capital assets, net of related debt was $814.2 million, an increase of $41.2 million and $41.7 million over fiscal year 2005 and 2004, respectively. The Authority's restricted assets of $496.0 million as of June 30, 2006, are subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. The remaining unrestricted assets of $81.4 million are deposited in the Improvement and Extension Fund and may be used for any lawful purpose of the Authority, and have been fully committed to support the Authority's capital program.

Cash and Investment Management

The Authority's cash and cash equivalents totaled $111.2 million on June 30, 2006, a decrease of $70.7 million from the $181.9 million on June 30, 2005 and a decrease of $6.6 million from the $117.8 million on June 30, 2004. The fiscal year 2005 figure was $64.2 million greater than the $117.8 million cash position on June 30, 2004. Cash and cash equivalents are considered highly liquid investments with an original maturity of thirty (30) days or less. The Authority's cash and cash equivalents decreased during fiscal year 2006 as the proceeds of the 2005 Bonds and funds from other sources were applied to the acquisition and construction of capital assets. In fiscal year 2005, the Authority issued its 2005 Bonds pursuant to the 1978 Trust Agreement, and applied a portion of the proceeds of the 2005 Bonds to fund acquisition and construction of certain capital assets and to advance refund certain previously issued bonds. As of June 30, 2005, the majority of the proceeds of the 2005 Bonds were invested, pending application of such proceeds to payment of construction costs of certain capital assets. Fiscal year 2006 saw significant decreases in the purchases of investments and in the proceeds from sales and maturities of investments, as cash was applied to the acquisition and construction of capital assets, which drew down balances available for investment.

The following summary shows the major sources and uses of cash:

	(in millions)		
	2006	**2005**	**2004**
Net cash provided by operating activities	$ 181.1	$ 175.9	$ 152.6
Net cash used for capital and related financing activities	(310.8)	(46.6)	(140.9)
Net cash provided by (used for) investing activities	58.9	(65.1)	(103.4)
Net (decrease)/increase in cash and cash equivalents	(70.8)	64.2	(91.7)
Cash and cash equivalents, beginning of year	181.9	117.8	209.5
Cash and cash equivalents, end of year	$ 111.2	$ 181.9	$ 117.8

Column totals might not add due to rounding.

Cash received during the year or required for the needs of the Authority was invested in demand deposits, the Massachusetts Municipal Depository Trust ("MMDT"), U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, certificates of deposit, and other permitted investments under the 1978 Trust Agreement or the PFC Trust Agreement. During fiscal year 2006, the Authority's daily average portfolio balance of funds held under the 1978 Trust Agreement was $553.7 million and the average yield on investments was 3.86%. During fiscal year 2006, the Authority's average portfolio balance of funds held under the PFC Trust Agreement was $53.0

million and the average yield on investments was 4.79%. Certain funds held under the PFC Trust Agreement are invested in forward delivery agreements. The PFC debt service account for the 1999 Series A Bonds is invested until July 1, 2017, the PFC debt service account for the 1999 Series B Bonds is invested until July 1, 2015 and the PFC debt service reserve funds are invested until June 28, 2017. An annual cash flow projection for capital projects is developed for all bond proceeds as well as for the Maintenance Reserve and Improvement and Extension Funds and the PFC Capital Fund, and investments are matched to optimize investment income after ensuring cash is available for capital project expenses and maintaining the principal value of each fund.

All investments must be made pursuant to the Investment Policy adopted in 2000 by the Members of the Authority. The majority of the Authority's funds, including investments, are held by the Trustees under the 1978 Trust Agreement or the PFC Trust Agreement, respectively, or custodians for such Trustees, and are invested at the direction of the Authority. An investment committee meets monthly to review projected cash flow needs and investments, and an investment oversight committee meets quarterly to review the Authority's existing portfolios for compliance with the Investment Policy and comparability with external benchmarks, and to revise the existing investment strategies for the Authority's various funds, if necessary.

The Authority's Capital Program

Fiscal Year 2006-Fiscal Year 2010 Capital Program. On February 15, 2006, the Members of the Authority approved its capital program for fiscal years 2006 through 2010 (the "FY06-FY10 Capital Program"). The FY06-FY10 Capital Program includes total expenditures of $1.74 billion for ongoing projects and projects to be commenced during the five-year program period, including $683 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources. This program includes funding for a number of security initiatives, including improvements to perimeter security at Logan Airport.

The FY06-FY10 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and TSA grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, the FY06-FY10 Capital Program allocates $1.053 billion of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities.

During fiscal year 2006, the Authority disbursed $311.9 million on its on-going capital program. Major projects substantially completed in fiscal year 2006 include the new Logan airfield lighting vault, upgrade of the fire alarm system at Logan, the South Boston waterfront park and roads and the overlay of the upper level deck of the Tobin Bridge. In fiscal year 2006 work commenced on the Logan Wayfinding System, the new facilities maintenance building at Logan, the soundproofing for the homes under the flight path of runway 14/32, the Terminal B public space expansion including the replacement of the exterior sliding doors, a new sand storage building at Hanscom, new concrete runways for the container handling cranes at Conley Terminal and the overlay of the lower deck at the Tobin Bridge. Major on-going projects that are scheduled for completion in fiscal year 2007 or beyond at the Airport include

Runway 14/32,and the Centerfield Taxiway project; the renovation of the Central Garage at the Airport, which includes completely rebuilding the three lower floors of that garage, renovating the next two floors, and adding three new levels to that structure; the International Gateway; the enhanced security program; residential soundproofing in nearby communities; and certain Terminal Area Roadway improvements.

Capital Financing and Debt Management

As of June 30, 2006, prior to the principal payments made on July 1, 2006, outstanding obligations of the Authority issued pursuant to the 1978 Trust Agreement and the PFC Trust Agreement totaled approximately $1.6 billion including the Subordinated Revenue Bonds but excluding commercial paper. (Special facilities revenue bonds issued on behalf of and payable by certain borrowers are excluded because they are not general obligations of the Authority.) In fiscal year 2006, the total amount deposited to pay debt service on obligations issued pursuant to the 1978 Trust Agreement (not including subordinate obligations) was an aggregate of principal and interest of $106.8 million, while the total amount deposited to pay debt service on bonds issued pursuant to the PFC Trust Agreement was an aggregate of principal and interest of $21.5 million.

In fiscal year 2006, the Authority secured a $13.6 million FAA grant that was the second grant received under a Letter of Intent in the amount of $90.8 million awarded in fiscal year 2004 by the FAA to provide grants in aid of the Authority's airside improvement program spread over an eight-year period. In fiscal year 2005, the Authority secured a $15 million FAA grant received under the Letter of Intent. Other key financial accomplishments in fiscal year 2006 include an increase in the outstanding principal of commercial paper to $89 million; and the termination of Massport's existing interest rate swap for a payment of $815,000 that included $98,021 of accrued interest and $716,979 of termination value.

Key financial accomplishments in fiscal year 2005 included the issuance of the 2005 Bonds; an amendment of the commercial paper program, and an increase in the outstanding principal amount of commercial paper notes to $70 million; and the bidding and completion of a seven-year Forward Delivery Agreement for the Debt Service Reserve Funds for the Series 1998-A, 1998-B, 2003-A, 2003-B and 2003-C Bonds that will yield 4.202% per year.

Credit Ratings:
The Authority's revenue bonds are rated AA- by Fitch, Aa3 by Moody's and AA- by S&P. When the Authority issued the 2005 Bonds in May 2005, the Fitch and Moody's ratings were confirmed and the S&P rating was upgraded from A+ to AA-. Fitch upgraded the Authority's outlook from stable to positive. In August 2004, Moody's raised the outlook on the Authority's bonds to stable. The Authority's PFC Revenue Bonds are insured by Financial Security Assurance Inc. and are rated AAA, Aaa and AAA, as insured, by each of Fitch, Moody's, and S&P, respectively. The Authority's Commercial Paper Notes are rated A-1+ and P-1 by S&P and Moody's, respectively, based on credit enhancement provided by WestLB AG.

Authority Obligations:
The following is a summary of outstanding obligations issued by the Authority as of June 30, 2006:

Commercial Paper Program
In fiscal year 2006, the Authority issued $19 million of commercial paper resulting in a total amount outstanding of $89 million. On March 10, 2005, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed $139 million and entered into an amendment to the Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, that provides security for the commercial paper program, extending the term to December 15, 2015.

On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund a portion of the Authority's Revenue Bonds, Series 1997-A, 1998-D and 1999-C Bonds. This advance refunding achieved a net present value savings of $9.77 million or 4.2%. While debt service for fiscal year 2006 increased by $406,000, the annual savings for fiscal years 2007-2029 will be approximately $575,000. The Official Statement relating to the Authority's 2005 Bonds is available from the Authority or by accessing the Authority's website.

Revenue Bonds

- The Authority had 16 series of Revenue Bonds (including Revenue Refunding Bonds but excluding subordinated Revenue Bonds) outstanding pursuant to the 1978 Trust Agreement in a total principal amount of $1.27 billion as of June 30, 2006.
- While 14 of these series are fixed rate debt, the 2003-B and the 2005-B Bonds are auction rate securities. The 2003-B Bonds are subject to the Alternative Minimum Tax, are insured by MBIA, and Citigroup and Lehman Brothers serve as Broker Dealers for the auctions that are held every 35 days. (MBIA also insures the fixed rate 2003-A and 2003-C Bonds.) The 2005-B Bonds are subject to the Alternative Minimum Tax, are insured by Ambac, and Goldman Sachs serves as Broker Dealer for the auctions that are held every 7 days. (Ambac also insures the fixed rate 2005-A and 2005-C Bonds.)
- The Authority had six series of Subordinated Revenue Bonds, in the aggregate principal amount of $74 million, outstanding pursuant to the 1978 Trust Agreement.

PFC Revenue Bonds

- The Authority has issued two series of PFC Revenue Bonds pursuant to the PFC Trust Agreement, with $201.3 million outstanding as of June 30, 2006. The PFC Revenue Bonds are insured by Financial Security Assurance, Inc.

Special Facilities Revenue Bonds

- As of June 30, 2006, the Authority had approximately $715.5 million of special facilities revenue bonds outstanding, in nine separate series of bonds.
- As a result of the bankruptcy of United Air Lines, Inc., the trustee for the Authority's Special Facilities Revenue Bonds (United Air Lines, Inc., Project), Series 1999-A declared an event of default with respect to such bonds. Once the United Plan of Reorganization was approved by the bankruptcy court on February 1, 2006, this debt was discharged, along with other unsecured debt, and the bond holders are entitled to distribution along with other unsecured creditors.
- The principal of and interest on each series of the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of such bonds. The special facilities revenue bonds are not and shall never be general obligations of the Authority or of the Commonwealth or of any political subdivision thereof.

Other Obligations

- From time to time the Authority has guaranteed or provided other credit support for debt obligations issued by or on behalf of its tenants.
- On June 5, 2006 the Authority terminated the swap for a payment from Citigroup of $815,000 that included $98,021 of accrued interest and $716,979 of termination value. Over the life of the swap Massport received $9,025,652. In fiscal year 2006 the Authority received $1,305,402 of which $731,025 was applied to the debt service for the 1999-D Bonds, and $574,377 was applied to the debt service for the 1998-E Bonds. In fiscal year 2005 Massport received four quarterly net payments from the swap counterparty totaling $2,606,512. $1,459,647 was applied to the debt

service for the 1999-D Bonds and $1,146,865 was applied to the debt service for the 1998-E Bonds. Effective July 1, 2002, the Authority had entered into an interest rate swap agreement with Citigroup Financial Products ("Citigroup"), which is guaranteed by Citigroup Global Market Holding, Inc., in the notional amount of $100 million pursuant to which the Authority received 4.05% and paid Citigroup the Bond Market Association index on the notional amount for the period from July 1, 2002 through June 30, 2012. The Authority treated this transaction as a synthetic variable rate refunding of $56 million of its Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E.

The Authority, through the 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. As of June 30, 2006, 2005 and 2004, respectively, the Authority's debt service coverage under the 1978 Trust Agreement was 2.33, 2.60 and 2.20. As of June 30, 2006, 2005 and 2004, the Authority's PFC debt service coverage under the PFC Trust Agreement was 2.45, 1.78 and 1.62, respectively.

Contacting the Authority's Financial Management

For additional information concerning the Authority, please see the Authority's website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Massachusetts Port Authority
Balance Sheets
June 30, 2006 and 2005
(In Thousands)

ASSETS	**2006**	**2005**
CURRENT ASSETS		
Assets whose use is unlimited:		
Cash and cash equivalents	$ 40,642	$ 42,715
Investments	68,535	46,535
Assets whose use is limited:		
Cash and cash equivalents	70,565	139,231
Investments	286,886	277,892
Accounts receivable – net of allowance for doubtful accounts of $13,754 and $11,470 as of June 30, 2006 and 2005, respectively	32,841	29,328
Accounts receivable-grants	23,477	43,705
Prepaid expenses and other assets	4,690	6,547
Total current assets	527,636	585,953
NONCURRENT ASSETS		
Assets whose use is unlimited:		
Investments	11,707	27,440
Assets whose use is limited:		
Investments	152,569	205,439
Prepaid expenses and other assets	25,756	26,741
Investment in joint venture	3,061	3,637
Intangible assets, net	38,551	40,093
Capital Assets		
Completed facilities	3,449,461	3,505,003
Less accumulated depreciation	(1,171,292)	(1,298,797)
	2,278,169	2,206,206
Construction in progress	185,885	135,052
Capital assets, net	2,464,054	2,341,258
Total noncurrent assets	2,695,698	2,644,608
TOTAL ASSETS	$ 3,223,334	$ 3,230,561

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Balance Sheets, Continued
June 30, 2006 and 2005
(In Thousands)

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 73,267	$ 136,751
Compensated absences	1,144	1,061
Retainage	10,362	3,488
Current maturities of funded debt	53,206	47,017
Commercial paper notes	89,000	70,000
Accrued interest payable	37,122	30,746
Deferred income	4,680	5,635
Total current liabilities	268,781	294,698
NON-CURRENT LIABILITIES		
Accrued expenses	5,450	4,022
Compensated absences	21,740	20,155
Retainage	4,707	8,756
Funded debt	1,518,413	1,572,473
Deferred income	12,723	13,582
Total noncurrent liabilities	1,563,033	1,618,988
Total liabilities	1,831,814	1,913,686
NET ASSETS		
Invested in capital assets, net of related debt	814,180	772,931
Restricted:		
Bond funds	163,210	161,112
Project funds	183,725	148,743
Passenger facility charges	48,303	50,481
Other purposes	100,736	106,678
Total restricted	495,974	467,014
Unrestricted	81,366	76,930
Total net assets	1,391,520	1,316,875
TOTAL LIABILITIES AND NET ASSETS	$ 3,223,334	$ 3,230,561

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Operating revenues:		
Fees, tolls and other services	$ 268,723	$ 249,323
Rentals	154,991	139,731
Concessions	53,678	49,923
Other	16,752	16,147
Operating grants	3,490	5,454
Total operating revenues	497,634	460,578
Operating expenses:		
Operations and maintenance	236,359	211,905
Administration	46,653	47,023
Insurance	6,632	11,221
Pension	3,715	2,141
Payments in lieu of taxes	15,771	12,028
Provision for uncollectible accounts	2,609	320
Depreciation and amortization	142,071	136,007
Total operating expenses	453,810	420,645
Operating income	43,824	39,933
Nonoperating revenues (expenses):		
Passenger facility charges	48,324	35,316
Investment income	20,648	13,456
Net change in the fair value of investments	(2,870)	-
Other revenues	351	-
Settlement of claims	438	3,354
Other expenses	(2,780)	(230)
Gain on sale of equipment	102	60
Interest expense	(69,601)	(64,620)
Total nonoperating revenues (expenses)	(5,388)	(12,664)
Income before capital grant revenue	38,436	27,269
Capital grant revenue	36,209	47,709
Increase in net assets	74,645	74,978
Net assets, beginning of year	1,316,875	1,241,897
Net assets, end of year	$ 1,391,520	$ 1,316,875

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 494,452	$ 459,795
Cash payments:		
To vendors for goods and services	(193,916)	(174,272)
To employees for services	(103,369)	(97,861)
Payments in lieu of taxes	(16,071)	(11,728)
Net cash provided by operating activities	181,096	175,934
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(311,917)	(236,831)
Proceeds from sale of bonds	-	478,203
Principal paid on refunded debt	-	(248,079)
Principal paid on funded debt	(47,285)	(43,080)
Interest paid on funded debt	(72,527)	(74,837)
Proceeds from commercial paper financing	19,000	20,000
Proceeds from passenger facility charges	46,899	35,687
Capital grants	54,467	18,897
Settlement of claims	438	3,354
Proceeds from sale of equipment	145	60
Net cash used for capital and related financing activities	(310,780)	(46,626)
Cash flows from investing activities:		
Purchases of investments	(504,728)	(1,729,917)
Proceeds from sales and maturities of investments	543,341	1,650,472
Interest earned on investments	20,332	14,323
Net cash provided by (used for) investing activities	58,945	(65,122)
Net (decrease)/increase in cash and cash equivalents	(70,739)	64,186
Cash and cash equivalents, beginning of year	181,946	117,760
Cash and cash equivalents, end of year	$ 111,207	$ 181,946

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows, Continued
For the Years Ended June 30, 2006 and 2005
(In Thousands)

	2006	2005
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 43,824	$ 39,933
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	142,071	136,007
Provision for uncollectible accounts	2,609	320
Changes in assets and liabilities:		
Accounts receivable	(4,697)	88
Prepayments and other assets	5,919	(2,930)
Accounts payable and accrued expenses	(8,561)	(451)
Accrued compensated absences	1,668	2,260
Deferred income	(1,737)	707
Total adjustments	137,272	136,001
Net cash provided by operating activities	$ 181,096	$ 175,934

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Notes to Financial Statements

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"). The Authority controls, operates and manages Boston-Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of The Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee (the "Trustee"), and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"), govern all moneys received by the Authority pursuant to the Enabling Act.

A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

Commencing on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20. Accordingly, FASB Statements issued after FASB No. 104 are not incorporated in the Authority's financial statements.

During 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34") as amended. The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended June 30, 2006 and 2005, the Authority did not have nonexpendable net assets.

  Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets included the construction funds held pursuant to the 1978 Trust Agreement and the PFC Trust Agreement.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Members of the Authority or may otherwise be limited by contractual agreements with outside parties.

A. Summary of Significant Accounting Policies, continued

During fiscal year 2005, the Authority adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the Authority's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. (See Footnote C.)

New Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the Authority's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The Authority adopted this statement for fiscal year 2006.

In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistic Section,* effective for the Authority's fiscal year beginning July 1, 2005. This Statement amends the portions of National Council on Governmental Accounting ("NCGA") Statement 1, *Governmental Accounting and Financial Reporting Principles* that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the financial statements, and required supplementary information to assess the economic condition of a government. The Authority adopted this statement for fiscal year 2006.

In December 2004, the GASB issued Statement No. 46 (amendment of GASB Statement No. 34), *Restricted by Enabling Legislation*, effective for the Authority's fiscal year beginning July 1, 2005. This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has cause for reconsideration. The Authority adopted this statement for fiscal year 2006.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, effective for the Authority's fiscal year beginning July 1, 2005. This statement requires the recognition of a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for involuntary termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. The Authority adopted this statement for fiscal year 2006.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Authority's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of OPEB expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the Authority, this will result in increased expenses and a related liability which will likely be significant. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial

A. Summary of Significant Accounting Policies, continued

statements. The Authority commissioned an actuarial valuation as of January 1, 2004 which estimated the liability to be in the range of $121.8 million to $423.7 million, and projected forward to January 1, 2005 in the range of $138 million to $463 million. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial statements and awaiting the results of a new valuation as of January 1, 2006.

Assets Whose Use is Limited
The balance sheets caption, "Assets whose use is limited", represents restricted or trusteed assets under the 1978 Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities, debt service and debt service reserves.

Cash and Cash Equivalents
The Authority considers all highly liquid investments (including "Assets whose use is limited") with an original maturity of 30 days or less when purchased to be cash equivalents.

Investments
Investments with an original maturity greater than one year are recorded at their fair value. Investments with an original maturity of less than one year are carried at amortized cost which approximates fair value. Investments consist of U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, shares in the Massachusetts Municipal Depository Trust ("MMDT") and other investments permitted under the 1978 Trust Agreement or the PFC Trust Agreement. (See Note C.)

Self-Insurance
The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account within the Operating Fund. The funds on deposit in the self insurance account are intended to pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable on reasonable terms, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets. (See Note N.)

Capital Assets
Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments, capitalized interest and related legal costs. Capital grants received are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred. The capitalization threshold table is shown below:

Asset Category	Capitalization Threshold
Buildings & Bridge	$10,000
Machinery & Equipment	$5,000
Equipment Repair/Overhaul (Major)	$25,000
Runways, Runways & Other Paving	$50,000
Land	All land will be capitalized
Land Improvements	$50,000

A. Summary of Significant Accounting Policies, continued

Operating and Non-operating Revenues and Expenses

Operating revenue includes rentals, tolls, fees, concessions, and other charges derived in connection with the use of and privileges granted at the Authority's facilities, and amounts received from operating grants. All other revenues, which include interest income, Passenger Facility Charges ("PFCs"), non-operating grants, and gains resulting from the disposition of assets, if any, are reported as non-operating revenues. Operating expenses include those costs incurred for the operation and maintenance of the Authority's facilities, administrative expenses, insurance premiums, pension expenses, any payments made by the Authority in lieu of taxes, and depreciation. All other expenses, such as interest expense, net change in fair value of investments and losses resulting from the disposition of assets, are reported as non-operating expenses.

Depreciation

Depreciation is calculated on the straight-line method based on the estimated useful lives of the applicable assets beginning in the fiscal year of acquisition or completion of construction. Depreciation is computed on facilities, which are recorded in the accounts of the Authority, including those financed by grants. (See Note D.)

Interest Capitalization

The Authority capitalizes certain interest expense associated with the cost of tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $9.1 million and $7.5 million, reduced by interest income of $3.6 million and $1.3 million, resulted in interest of $5.6 million and $6.3 million for the years ended June 30, 2006 and 2005, respectively, being capitalized as a part of the cost of capital assets.

Accounting for Compensated Absences

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the captions "compensated absences." The compensated absences earned for fiscal year 2006 were valued at $10.6 million and those taken were valued at $8.9 million. The total compensated absences liability was $22.9 million and $21.2 million at June 30, 2006 and 2005, respectively.

Deferred Income

Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") as compensation for temporary and permanent easements in certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed.
Income received from these easements will be recognized as follows: for temporary easements, over the shorter of the asset's useful life or the original term; and for permanent easements, over the estimated useful life of the assets constructed, which is 25 years.

Arbitrage - Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields than the yield on such debt. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable. The Authority recorded arbitrage rebate liabilities of $0.6 million as

A. Summary of Significant Accounting Policies, continued

of June 30, 2006 consisting of $0.3 million for both the 2005-B Bonds and PFC Revenue Bonds Series 1999-A and B. As of June 30, 2005, the Authority recorded an arbitrage rebate liability of $0.3 million also related to the PFC Revenue Bonds Series 1999-A and B.

Passenger Facility Charges
Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as non-operating revenue by the Authority.

Net Assets
Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three components: Invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, include capital assets, net of accumulated depreciation, reduced by outstanding debt allocable to such assets net of applicable debt service reserves. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

Intangible Assets
Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. During fiscal 2001, the Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston (the "ParkEx Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately $38.6 million and is presented as Intangible Assets, net of amortization, in the accompanying financial statements as of June 30, 2006. These intangible assets are amortized on a straight-line basis over 30 years. Amortization expense related to intangibles assets was $1.5 million for both fiscal year 2006 and 2005, respectively.

Joint Venture
The Authority has a 33% participating interest in a joint venture (known as the Anderson Regional Transportation Center). In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made. (See Note M.)

Financial Statement Reclassification
Certain accounts in the June 30, 2005 financial statements have been reclassified to conform with the June 30, 2006 presentation.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements

The provisions of the Enabling Act, the 1978 Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the 1978 Trust Agreement, cash revenues of the Authority are deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement and are transferred daily to the cash concentration account. Once each month, all such revenues are transferred to the various funds established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the self insurance account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the capital budget account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund. In order to comply with federal tax requirements, the Authority also establishes a separate rebate account for each series of its bonds. In fiscal year 2006, rebate accounts were funded for the Series 2005-B Rebate Account and the Series 1999-A and 1999-B PFC Rebate Accounts. In fiscal year 2005, the only rebate accounts that were funded were the Series 1999-A and 1999-B PFC Rebate Accounts.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

Presented below are the 2006 and summary 2005 revenues and operating expenses as determined in accordance with the 1978 Trust Agreement, and a reconciliation to net assets as presented in the accompanying statements of revenues, expenses and changes in net assets under accounting principles generally accepted in the United States of America ("GAAP").

(In thousands)	Bridge	Airport Properties	Port Properties: Maritime Operation	Port Properties: Maritime Real Estate	Investment Income	Net change in the fair value of investments	2006 Total	2005 Total
Trust revenues:								
Pledged revenues	$ 28,261	$ 403,051	$ 46,594	$ 16,238	$ 15,346	$ -	$ 509,490	$ 464,612
Operating grants	6	3,280	163	41	-	-	3,490	5,454
Adjustment for uncollectible accounts	6	(2,561)	(169)	115	-	-	(2,609)	(320)
Total	28,273	403,770	46,588	16,394	15,346	-	510,371	469,746
Trust operating expenses:								
Operations and maintenance	6,302	179,408	40,447	8,687	-	-	234,844	210,514
Administration (5)	2,581	36,829	4,095	4,148	-	-	47,653	48,023
Insurance	454	6,506	340	406	-	-	7,706	9,026
Pension	196	3,027	269	223	-	-	3,715	2,141
Total	9,533	225,770	45,151	13,464	-	-	293,918	269,704
Excessof revenues over operating Expenses as prescribed by the 1978 Trust Agreement	18,740	178,000	1,437	2,930	15,346	-	216,453	200,042
Add:								
Investment income self insurance / others (3)	-	-	-	-	2,566	-	2,566	1,924
Passenger facility charge (PFC) (3)	-	48,324	-	-	1,265	-	49,589	35,937
Earnings associated with PFC bond funds (3)	-	-	-	-	1,471	-	1,471	1,423
Capital grant revenue (3)	-	35,262	947	-	-	-	36,209	47,709
Gain on sale of equipment (2) (4)	17	44	41	-	-	-	102	60
Administration expenses (1) (5)	40	818	122	20	-	-	1,000	2,000
Settlement of claims (3)	9	399	26	4	-	-	438	3,354
Nonoperating other revenues (4)	22	252	-	77	-	-	351	-
Less:								
PILOT (4)	(1,140)	(12,730)	(1,514)	(387)	-	-	(15,771)	(12,028)
Self insurance cost (1)	29	966	92	(13)	-	-	1,074	(2,195)
Interest expense (4)	(423)	(67,689)	(1,275)	(214)	-	-	(69,601)	(64,620)
Net change in the fair value of investments (4)	-	-	-	-	-	(2,870)	(2,870)	-
Depreciation and amortization (2) (4)	(3,429)	(121,687)	(11,160)	(5,795)	-	-	(142,071)	(136,007)
Operating expenses (4)	(53)	(1,140)	(16)	(306)	-	-	(1,515)	(2,391)
Nonoperating other expenses (4)	-	(1,926)	-	(854)	-	-	(2,780)	(230)
Increase in net assets	$ 13,812	$ 58,893	$ (11,300)	$ (4,538)	$ 20,648	$ (2,870)	$ 74,645	$ 74,978

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

(1) Expensed under 1978 Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under 1978 Trust Agreement.
(3) Not revenue under 1978 Trust Agreement, revenue under GAAP.
(4) Not operating income/(expense) under 1978 Trust Agreement, income/(expense) under GAAP.
(5) The Authority allocates total administrative expenses based upon the proportionate amount of revenues, direct expenses and capital expenditures by facility.

C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments valued at amortized cost on June 30, 2006 by the various funds and accounts established under the 1978 Trust Agreement and the PFC Trust Agreement. Therefore, the reduction in fair value of investments of $2.9 million recorded in the Statements of Revenue, Expenses and Change in Net Assets for the year ended June 30, 2006 has not been reflected in the following schedule. Summary 2005 information is also presented:

	Current				Non-current			
	Cash, cash equivalants		Investments		Investments			
(In thousands)	Assets whose use is:				Assets whose use is:		2006	2005
	Unlimited	Limited	Unlimited	Limited	Unlimited	Limited	Total	Total
User defined for specific purposes:								
Operating/Revenue Fund	$ 35,559						$ 35,559	$ 33,350
Self-Insurance Account		2,618		29,095		9,597	41,310	41,557
Maintenance Reserve Fund		4,979		34,510		2,000	41,489	43,719
Payments in Lieu of Taxes Fund		1,513		1,995			3,508	7,229
Capital Budget Account		18,288		94,608		18,173	131,069	88,360
Improvement and Extension Fund	5,083		68,535	3,236	12,054		88,908	86,442
1997-A Debt Service		443		4,278			4,721	7,468
1997-A Debt Service Reserve		5		1,486		3,713	5,204	5,200
1997-B Debt Service		249		1,764			2,013	1,989
1997-B Debt Service Reserve		5				3,024	3,029	3,028
1998-A Debt Service		478		2,415			2,893	2,895
1998-A Debt Service Reserve						5,019	5,019	5,019
1998-B Debt Service		292		2,347			2,639	2,556
1998-B Debt Service Reserve						4,427	4,427	4,427
1998-C Debt Service		1,385		13,877			15,262	14,931
1998-C Debt Service Reserve						16,492	16,492	16,519
1998-D Debt Service		296		2,280			2,576	3,035
1998-D Debt Service Reserve		67				3,511	3,578	3,576
1998-E Debt Service		479		3,390			3,869	3,828
1998-E Debt Service Reserve		5		5,800			5,805	5,827
1999-C Debt Service		244		2,424			2,668	5,489
1999-C Debt Service Reserve		33		5,586			5,619	5,515
1999-D Debt Service		452		3,019			3,471	3,438
2003-A Debt Service		1,197		8,129			9,326	8,108
2003-A Debt Service Reserve						14,302	14,302	14,302
2003-B Project							-	23
2003-B Debt Service		376					376	214
2003-B Debt Service Reserve						5,681	5,681	5,681
2003-C Debt Service		784		6,919			7,703	7,449
2003-C Debt Service Reserve						9,916	9,916	9,916
2005-A Project		8,657		12,170			20,827	158,537
2005-A Debt Service		5,973		2,149			8,122	-
2005-A Debt Service Reserve		59		4,022		8,519	12,600	12,551
2005-B Project		12,261					12,261	26,897
2005-B Debt Service		468					468	134
2005-B Debt Service Reserve		4		1,916			1,920	1,916
2005-C Debt Service		2,593		3,046			5,639	-
2005-C Debt Service Reserve		4		8,207		7,069	15,280	15,213
2005-B Rebate		166					166	-
2003-A CP Project Account							-	294
2003-B CP Project Account		50					50	1,049
Park Ex Principal 2000						9,061	9,061	8,533
Park Ex Interest 2000		1,295					1,295	1,293
Park Ex Principal 2001						7,703	7,703	7,255
Park Ex Interest 2001		1,101					1,101	1,099
Maintenance Reserve-Term A Escrow		97				1,307	1,404	274
PFC Pledged Revenue		2,248					2,248	3,896
PFC Capital		574		11,588			12,162	16,337
PFC Collection		445					445	344
1999-A&B PFC Funded Interest				5,085			5,085	4,962
1999-A&B Non-PFC Fund Interest				295			295	681
1999-A Non-PFC Funded Debt Service Reserve						25,578	25,578	25,578
1999-B PFC Principal				11,250			11,250	10,715
1999-A Rebate – PFC		74					74	76
1999-B Rebate - PFC		308					308	528
	$ 40,642	$ 70,565	$ 68,535	$286,886	$ 12,054	$ 155,092	$ 633,774	$ 739,252

C. Cash, Cash Equivalents and Investments, continued

The carrying amount of the Authority's cash deposits was $10,897,000 and $8,964,000 at June 30, 2006 and 2005, respectively. The bank balance was $17,694,000 and $15,456,000 at June 30, 2006 and 2005, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2006. Summary 2005 information is also presented.

(In thousands)	Amortized Cost	Fair Value as of June 30
Forward delivery agreements	$ 144,899	$ 144,841
Guaranteed Investment Contracts	16,764	16,764
U.S. Government Agencies and Instrumentalities:		
Treasury Note / Bill	13,058	12,869
Federal Agricultural Mortgage Corp. (Farmer Mac)	3,753	3,702
Federal Farm Credit (FFC)	6,533	6,501
Federal National Mortgage Association (FNMA)	100,716	99,422
Federal Home Loan Bank (FHLB)	126,093	125,109
Federal Home Loan Mortgage Corp. (FHLMC)	89,644	89,047
Total U.S. Government Agencies and Instrumentalities	339,797	336,650
Mutual fund (MMDT) and others	65,895	65,895
Gov't Fund (Morgan Stanley)	25,108	25,108
Municipal Savings (Citizens Bank)	4,490	4,490
Total Mutual Fund and Others	95,493	95,493
Corporate Commercial Paper (Citigroup, GE Capital)	20,895	20,896
Total Cash Equivalents and Investments	617,848	614,644
Cash deposit	10,897	10,897
Certificates of deposit	5,029	5,029
Total at June 30, 2006	$ 633,774	$ 630,570
Total at June 30, 2005	$ 739,252	$ 736,983

C. Cash, Cash Equivalents and Investments, continued

The Authority's investments are made in accordance with the provisions of the 1978 Trust Agreement or the PFC Trust Agreement and the investment policy adopted in 2000 by the Members of the Authority (the "Investment Policy"). The goals of the Investment Policy are, in descending order, to preserve capital, to provide liquidity and to generate interest income. As directed by the Investment Policy, the Authority has established an Investment Oversight Committee, comprised of Authority staff, which meets quarterly to review the Authority's investment portfolio for compliance with the Investment Policy and to establish, revise and monitor investment strategy and external benchmarks for the performance of the Authority's investments.

The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust ("MMDT", an unrated, money market-like governmental investment pool), in bank time deposits and in forward delivery agreements, and certain other types of permitted investments specified therein. In May 2005 after the sale of the 2005 Bonds, amendments to the 1978 Trust Agreement became effective that also permit the investment of the Authority's funds in highly rated money market funds, commercial paper sold by bank holding companies, banker's acceptances and the purchase of Federal Home Loan Mortgage Corporation securities. (The PFC Trust Agreement already permitted these investments.)

As of June 30, 2005, the Authority implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposit and Investment Risk Disclosures" ("GASB 40") and, accordingly the Authority has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk and Interest Rate Risk of its Cash and Investments.

a) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority would not be able to recover the value of its deposits, investments or collateral securities that were in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name.

The Authority maintains depository accounts with Bank of America, N.A., Wachovia Bank, N.A., and with the Bank of New York, the PFC Trustee. The Authority maintains payroll disbursement, lockbox and collection accounts (for other than PFCs) with the Bank of America, N.A. None of these accounts are collateralized.

C. Cash, Cash Equivalents and Investments, continued

The following are balances on deposit on June 30, 2006 and 2005:

Bank	Balance as of June 30, 2006 (in thousands)	Balance as of June 30, 2005 (in thousands)
Bank of America, N.A	$ 3,047	$ 3,379
Wachovia Bank, N.A	13,108	11,733
Bank of New York	1,539	344
Total	$ 17,694	$ 15,456

As of June 30, 2006, all investments were held on behalf of the Authority by the Trustee, the PFC Trustee or custodians in the Authority's name. Any repurchase agreements are fully collateralized by obligations of the U.S. Government or agencies of the U.S. Government. However, no repurchase agreements were held by the Authority during fiscal year 2006. The 1978 Trust Agreement and the PFC Trust Agreement both require that securities collateralizing repurchase agreements must continuously have a fair value at least equal to the cost of the agreement plus accrued interest.

The Authority's investments in forward delivery agreements are in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the Trustee or PFC Trustee, as applicable, periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed between the Authority and the provider of the guaranteed investment contract.

The total unrealized loss due to the changes in fair value of investments as of June 30, 2006 was approximately $3.2 million, of which approximately $2.9 million related to investments with maturities in excess of one year.

b) Concentration of Credit Risk

Concentration of Credit Risk is assumed to arise when the amount of investments that the Authority has with any one issuer exceeds 5 percent of the total value of the Authority's investments.

C. Cash, Cash Equivalents and Investments, continued

The Investment Policies and Procedures adopted by the Investment Oversight Committee on August 14, 2003 in accordance with the Investment Policy set forth the diversification limits for each type of security as shown below:

Type of Security	Maximum per fund	Maximum per the Authority-wide portfolio
U.S. Treasury Bills and Notes	100%	100%
Federal Agencies	100%	100%; 35% per issuer
Bankers Acceptances & Commercial Paper	10% per issuer	35% per issuer
Repurchase Agreements <30 days	Overnight repos – 100%	100% per fund; 25% per counterparty
	Longer repos – 50%	50% per fund; 25% per counterparty
Full Flex Repos	100%	25% per counterparty
Forward Delivery Agreements	100% if collateralized with Treasuries or Federal Agencies	50% per counterparty
MMDT	100%	25%

On May 24, 2006, the Investment Oversight Committee set the maximum for highly rated commercial paper within the Authority wide portfolio at 5%.

As of June 30, 2006, the portions of the Authority-wide portfolio, excluding the MMDT and U.S. Government guaranteed obligations, that exceed 5% of the portfolio are as follows:

Issuer:	Fiscal Year 2006 % of Portfolio	Fiscal Year 2005 % of Portfolio
Federal Home Loan Bank	27.70%	18.97%
Federal Home Loan Mortgage Corp.	21.31%	16.26%
Federal National Mortgage Association	22.22%	32.57%

c) Credit Risk

Credit risk is the risk that the Authority will lose money because of the default of the security issuer or investment counterparty.

The Authority's 1978 Trust Agreement and PFC Trust Agreement each stipulate that, in addition to U.S. Treasury and government agency obligations, only certain highly rated securities are eligible investments, including bonds or obligations of any state or political subdivision thereof rated in the two highest rating categories by both Moody's and S&P; commercial paper of a U.S. corporation or finance company or money market funds rated in the highest rating category, without regard to gradations within categories, by both Moody's and S&P; and investment contracts with banks whose long-term unsecured debt rating is in one of the two highest rating categories by both Moody's and S&P.

C. Cash, Cash Equivalents and Investments, continued

The table below shows the fair value and credit quality of the Authority's investment portfolio, by investment type, as of June 30, 2006 and June 30, 2005. The table distributes and values the individual securities held under the forward delivery agreements. In contrast, the table on page 53 aggregates the carrying amount and fair value of the forward delivery agreements as a unified type of investment.

Investment Type	2006		2005	
	Fair Value (In thousands)	Credit Rating (1)	Fair Value (In thousands)	Credit Rating (1)
U.S. Government Obligations	$ 12,869	N/A	$ 19,448	N/A
Federal Agency Bonds/Notes	274,763	AAA/Aaa	254,528	AAA/Aaa
Federal Agency Discount Notes	173,128	A-1+/P-1	251,347	A-1+/P-1
Commercial Paper	20,896	A-1+/P-1	-	N/A
Federal Agricultural Mortgage Corp.	3,702	Unrated	3,742	Unrated
Investments under forward delivery agreement held in the form of cash	17,029	N/A	29,449	N/A
MMDT	65,895	Unrated	119,209	Unrated
Morgan Stanley Money Market	25,108	AAA/Aaa	25,004	AAA/Aaa
Citizens Bank Money Market	4,490	Unrated	4,484	Unrated
One United Bank Certificate Deposit	5,029	AAA/Aaa (2)	5,019	AAA/Aaa (2)
Guaranteed Investment Contracts	16,764	AAA/Aaa (3)	15,789	AAA/Aaa (3)

(1) The ratings shown in this table are from S&P and Moody's, repectively

(2) Collateralized by Federal Agency Notes

(3) Underlying Rating of the Counterparties

d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The Investment Oversight Committee has set targets for the preferred maturity structure for the investments held for each fund and account and also sets targets each quarter for the effective duration for each fund that reflect the need for liquidity and the expected tradeoffs between yield and term for each different fund and account. The tables below show the current investment limitation/mandate for each fund and account and the fair value and effective duration for each fund and account as of June 30, 2006 and June 30, 2005.

Massachusetts Port Authority
Notes to Financial Statements

C. Cash, Cash Equivalents and Investments, continued

1. Accounts and Funds pledged under the terms of the 1978 Trust Agreement, as amended:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
Disbursement Concentration Account	Invest until funds are needed	$ 25,108	0.003	$ 25,004	0.003
Debt Service Accounts (Senior Lien)	Invest until next pay date on either Jan. 1st or July 1st or the next business day	71,701	0.003	61,567	0.003
Debt Service Accounts (Interest Amounts) (Subordinated Lien)	Invest until next pay date on either Jan. 1st or July 1st or the next business day	2,396	0.003	2,392	0.003
Debt Service Accounts (Principal Amounts) (Subordinated Lien)	Principal invested until date of bullet maturity	16,764	12.13	15,789	12.34
2005-B Bond Rebate Account	Invest until the 5 year payment date	166	0.003	-	-
Debt Service Reserve Accounts	Average maturity < 7 years	107,330	2.59	108,081	3.58
Maintenance Reserve Fund	Average maturity < 5 years	41,327	0.473	43,493	0.42
PILOT Fund	Invest until next payment date (less than one year)	3,509	0.019	7,229	0.02
Capital Budget Account (within I&E)	Invest until next payment dates	130,402	0.459	87,727	0.75
Improvement & Extension (I&E) Fund	Invest until expected payment dates	85,263	0.499	82,978	0.64
Self Insurance Account	Invest until expected payment dates	41,015	0.476	41,281	0.73
Project Accounts within Construction Funds for Series: 2005-A&B Bonds and for commercial paper	Invest until expected payment dates	33,090	0.089	186,642	0.40

C. Cash, Cash Equivalents and Investments, continued

2. Accounts and Funds established per the terms of the PFC Trust Agreement:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
PFC Pledged Revenue Fund	Invest until the last business day of the month	$ 2,248	0.003	$ 3,896	0.003
PFC Debt Service Accounts	Invest until next pay date on either Jan. 1st or July 1st or the next business day	16,630	0.003	16,355	0.003
PFC Rebate Accounts	Invest until the 5 year payment date	382	0.003	604	0.003
PFC Debt Service Reserve Accounts	Invest until date of last principal payment	25,556	8.308	25,574	8.87
PFC Capital Fund	Invest until payment dates	12,147	0.105	16,337	0.003

3. Accounts and Funds established per Other Agreements:

Account or Fund	Investment Mandate	2006 Fair Value (In thousands)	2006 Effective Duration	2005 Fair Value (In thousands)	2005 Effective Duration
I&E Dredging Project	Invest until expected payment dates	$ 3,237	0.07	$ 3,070	0.21
Maintenance Reserve-Term A Escrow	Average maturity < 5 years	1,402	0.88	-	-

It is the Authority’s policy to hold investments until maturity in order to insulate the Authority’s investment earnings from interest rate risk.

D. Capital Assets

Capital assets (excluding construction in progress) at June 30, 2006 and 2005 are comprised of:

(In thousands)	2006	2005
Facilities completed by operation:		
Airport	$ 2,892,162	$ 2,893,031
Bridge	137,743	156,119
Port	419,556	455,853
Capital assets (excluding construction in progress)	$ 3,449,461	$ 3,505,003

A summary of changes in capital assets for the year ending June 30, 2006 is as follows:

(In thousands)	Beginning balance July 1, 2005	Additions and Transfers	Deletions and Transfers	Ending balance June 30, 2006
Capital assets, not depreciable:				
Construction in progress	$ 135,052	$ 254,364	$ (203,531)	$ 185,885
Land	141,323	255		141,578
Capital assets, depreciable:				
Bridge and bridge improvements	144,243	245	(22,095)	122,393
Buildings	2,038,274	135,591	(97,676)	2,076,189
Runway & other paving	515,041	36,979	(63,032)	488,988
Roadway	513,974	10,661	(24,657)	499,978
Machinery & equipment	152,148	29,916	(61,729)	120,335
Total depreciable Capital Assets	3,363,680	213,392	(269,189)	3,307,883
Total Capital Assets	3,640,055	468,011	(472,720)	3,635,346
Less: accumulated depreciation:				
Bridge and bridge improvements	(88,428)	(2,374)	22,095	(68,707)
Buildings	(795,986)	(80,377)	96,821	(779,542)
Runway & other paving	(197,769)	(16,667)	63,032	(151,404)
Roadway	(113,629)	(23,234)	24,657	(112,206)
Machinery & equipment	(102,985)	(18,176)	61,728	(59,433)
Total Accumulated Depreciation	(1,298,797)	(140,828)	268,333	(1,171,292)
Total depreciable Capital Assets, net	2,064,883	72,564	(856)	2,136,591
Total Capital Assets, net	$ 2,341,258	$ 327,183	$ (204,387)	$ 2,464,054

Total depreciation for fiscal year 2006 was $140.8 million, an increase of $5.5 million from fiscal year 2005, which was $135.3 million.

D. Capital Assets, continued

During the year, the Authority wrote off $264.4 million of fully depreciated capital assets that were determined to be no longer in use. The Authority currently has $141.3 million of fully depreciated capital assets that are still in service.

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 to 25 years
Buildings	25 years
Runways and other airfield paving	25 years
Roadway	25 years
Machinery and equipment	5 to 10 years

E. Passenger Facility Charge

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 passenger facility charge ("PFC") at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. Effective October 1, 2005, the FAA increased the Authority's collection authority to $4.50. Through June 30, 2006 the Authority had collected $453.5 million in PFCs.

In February 1998, the Authority received approval from the FAA to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. The Authority has also received approval from the FAA to use or expend a total of $927.4 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways, the elevated walkways, and the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with The Bank of New York, as trustee, simultaneously removing PFC revenues from the pledge of the 1978 Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 of PFC Revenue Bonds, Series 1999-A and 1999-B pursuant to the PFC Trust Agreement, of which $201,285,000 was outstanding as of June 30, 2006 (prior to the principal payment made on July 1, 2006) and $211,710,000 was outstanding as of June 30, 2005 (prior to the principal payment made on July, 1, 2005.).

On July 29, 2005, the Authority submitted a request to amend the existing PFC authorization to increase the collection amount from $3.00 to $4.50, and to decrease the FAA-approved amount for certain completed projects and increase the FAA-approved amount for the International Gateway Project by 11.4%. On September 2, 2005, the FAA issued a record of decision increasing the PFC to $4.50, effective October 1, 2005, and shortening the projected expiration date to February 1, 2011.

On December 6, 2005 the Authority submitted an application to impose and use PFCs for additional soundproofing, for six airfield projects and for various security projects. On April 20, 2006, the FAA issued a Final Agency Decision approving the requested projects, increasing the

E. Passenger Facility Charge, continued

collection authority to $995,033,217, increasing the use authority to $982,191,217 and extending the projected expiration date to February 1, 2016.

The amount of assets derived from PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project expenses is as follows:

(In thousands)	June 30, 2006	June 30, 2005
Total assets, PFCs	$ 621,251	$ 607,653
PFC funds and PFC Bond funds expended, net	(557,980)	(538,722)
Other PFC related assets	(5,780)	(4,473)
PFCs collected to date and PFC Bond proceeds restricted but not yet expended	$ 57,491	$ 64,458

F. Funded Debt

The Authority's long-term bonds issued and outstanding as of June 30, 2006 and 2005 were as follows:

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Outstanding Bond Balance	Outstanding Bond Balance 2006	Outstanding Bond Balance 2005
Senior Debt - 1978 Trust Agreement						
Series 1997-A Revenue Bonds	07/31/97					
Serial		5.25% - 6.0%	2006-2008	$ 10,045		
					10,045	13,030
Series 1997-B Revenue Bonds	08/15/97					
Serial		4.8% - 5.3%	2006-2017	15,455		
Term		5.375%	2022	9,825		
Term		5.375%	2027	12,780		
					38,060	38,985
Series 1997-C Refunding Bonds	07/31/97					
Serial - Taxable		4.5% - 5.125%	2006-2017	12,065		
Term - Taxable		5.125%	2020	4,290		
					16,355	17,090
Series 1998-A Refunding Bonds	01/29/98					
Serial		4.6%-5.75%	2009-2018	86,585		
Term		5.0%	2023	18,075		
					104,660	104,660
Series 1998-B Refunding Bonds	01/29/98					
Serial		5.0%-5.375%	2006-2018	35,655		
					35,655	37,215
Series 1998-C Refunding Bonds	01/29/98					
Serial		6.35%-6.45%	2006-2009	49,305		
					49,305	61,915
Series 1998-D Revenue Bonds	08/05/98					
Serial		4.5%	2006-2009	6,465		
Term		5.0%	2028	34,870		
					41,335	42,780
Series 1998-E Revenue Bonds	08/05/98					
Serial		4.5% - 5.25%	2006-2013	17,645		
Term		5.25%	2018	15,140		
Term		5.0%	2028	44,275		
					77,060	78,845
Series 1999-C Revenue Bonds	11/12/99					
Serial		4.7% - 5.0%	2006-2010	12,660		
					12,660	14,855
Series 1999-D Revenue Bonds	11/12/99					
Serial		4.9% - 6.25%	2006-2019	28,445		
Term		6.0%	2022	9,620		
Term		6.0%	2029	30,210		
					68,275	69,625
Series 2003-A Revenue Bonds	05/22/03					
Serial		2.0% - 5.0%	2006-2025,2033	124,190		
Term		5.0%	2028	30,820		
Term		5.0%	2033	61,650		
					216,660	219,610

(Continued on next page)

F. Funded Debt, continued

Bonds Payable (in thousands)	Issue Date	Interest Rates	Maturity Date	Serial/Term Bond Outstanding Balance	Outstanding Bond Balance 2006	Outstanding Bond Balance 2005
Senior Debt - 1978 Trust Agreement						
Series 2003-B Revenue & Refunding Bonds	05/22/03					
Serial		Variable	2006-2033	$ 75,225		
					75,225	77,575
Series 2003-C Refunding Bonds	05/22/03					
Serial		2.1% - 5.0%	2006-2018	75,475		
					75,475	80,970
Series 2005-A Revenue Bonds	05/05/05					
Serial		3.0% - 5.0%	2006-2028	119,820		
Term		5.0%	2029-2035	72,315		
					192,135	192,135
Series 2005-B Revenue Bonds	05/05/05					
Serial		Variable	2006-2035	29,250		
					29,250	29,725
Series 2005-C Refunding Bonds	05/05/05					
Serial		3.0% - 5.0%	2007-2029	231,890		
					231,890	231,890
Subordinate Debt - 1978 Trust Agreement						
Series 2000-A, B & C Revenue Bonds	12/29/00					
Term		6.45%	2030	40,000		
					40,000	40,000
Series 2001-A, B & C Revenue Bonds	01/02/01					
Term		6.45%	2031	34,000		
					34,000	34,000
Senior Debt - PFC Trust Agreement						
Series 1999-A PFC Revenue Bonds	06/09/99					
Term		5.15%	2015	5,120		
Term		5.125%	2016	18,335		
Term		5.125%	2017	44,210		
					67,665	67,665
Series 1999-B PFC Revenue Bonds	06/09/99					
Serial		4.5% - 5.5%	2006-2015	133,620		
					133,620	144,045
Total long term Bonds principal					**1,549,330**	**1,596,615**
Plus unamortized discount/premium					45,693	47,599
Less: unamortized loss on refunding					(23,404)	(24,724)
Total Funded Debt					$ 1,571,619	$ 1,619,490
Less: current maturities of funded debt, including unamortized discount, premium & loss on refunding					(53,206)	(47,017)
Non current maturities of funded debt, including unamortized discount, premium & loss on refunding					$ 1,518,413	$ 1,572,473

F. Funded Debt, continued

The following is a summary of the Authority's activity with respect to its long term Bonds outstanding for the years ended June 30, 2006 and 2005:

(in thousands)	2006	2005
Long term Bonds principal, beginning of year	$ 1,596,615	$ 1,415,605
New debt issued (par)	-	453,750
Principal paid on refunded debt	-	(229,660)
Principal paid on funded debt	(47,285)	(43,080)
Long term Bonds principal, end of year	$ 1,549,330	$ 1,596,615

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium. Scheduled principal payments on long-term bonds are due annually on July 1 as follows (except for the 2003-B and 2005-B Bonds, which are auction rate securities with principal due on the last auction date preceding July 1.

(in thousands)

Due Fiscal Year	Principal	Interest*	Total Debt Service
2007	$ 52,620	$ 78,448	$ 131,068
2008	56,700	75,858	132,558
2009	59,825	72,941	132,766
2010	62,160	70,020	132,180
2011	65,745	67,123	132,868
2012 - 2016	322,175	285,349	607,524
2017 - 2021	267,400	202,530	469,930
2022 - 2026	197,135	139,557	336,692
2027 - 2031	283,340	78,603	361,943
2032 - 2036	182,230	15,701	197,931
Total	$ 1,549,330	$ 1,086,130	$ 2,635,460

* The interest on the Series 2003-B Bonds including fees, is projected at 3.936% per annum, which was the debt service (interest and fees) as of the auction held on June 13, 2006. The interest on the Series 2005-B Bonds including fees, is projected at 4.250% per annum, which was the debt service (interest and broker dealer fees) as of the auction held on June 27, 2006, plus an annual auction agent fee of $2,000.

F. Funded Debt, continued

<u>Senior Debt - 1978 Trust Agreement</u>: On May 5, 2005, the Authority issued the 2005 Bonds in a principal amount of $453,750,000, and with an original issue premium of $24,453,000. The 2005-A Bonds and the 2005-B Bonds were issued to finance a portion of the Authority's capital program. The 2005-C Bonds were issued to advance refund portions of the Authority's Revenue Bonds, Series 1997-A, Series 1998-D and 1999-C. The advance refunding resulted in the recognition of an accounting loss of $15.0 million, which will amortize over the life of defeased bonds. For fiscal year 2005, the Authority recorded a loss on refunding of $108,000. The aggregate difference in debt service between the refunded and the refunding debt service was $14.86 million. This advance refunding had an economic gain and achieved a net present value savings of $9.77 million or 4.2%. While debt service for the refunded bonds in fiscal year 2006 increased by $406,000, the annual savings for fiscal year 2007 through fiscal year 2027 are approximately $625,000.

The 2005-A and 2005-C Bonds are fixed rate Revenue Bonds. The 2005-B Bonds are auction rate securities.

The Authority reviews each bond sale to determine if there is value in providing investors with municipal bond insurance. The Authority's Series 2003 Bonds are insured by MBIA and the Series 2005 Bonds are insured by Ambac.

<u>Subordinate Debt - 1978 Trust Agreement</u>: On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition (see Note A: Intangible Assets), the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74 million, bearing interest at 6.45% per annum (collectively, the "Subordinated Bonds"). The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement (the "Subordinated Bonds Principal Account").

The payment of debt service on the Subordinated Bonds is subordinate to all of the Authority's outstanding Revenue Bonds. The Authority has invested $12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the $74 million principal of the Subordinated Bonds at their respective maturities.

<u>Senior Debt - PFC Trust Agreement</u>: In 1999 the Authority issued two series of its PFC Revenue Bonds under the 1999 PFC Trust Agreement that are backed solely by PFC revenues. These Bonds are insured by FSA.

<u>Defeased Bonds</u>: In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the trustee for such bonds to provide for all future debt service payments on the defeased bonds. Accordingly, the trust fund assets and the liability for the defeased bonds are not included in the Authority's Financial Statements. The Series 1969, 1971, 1973 and 1982 Bonds were escrowed to maturity: the 1969 Bonds have a final maturity of July 1, 2008; the 1971 Bonds have a final maturity of July 1, 2011; the 1973 Bonds have a final maturity of July 1, 2012; and the 1982 Bonds have a final maturity of July 1, 2013. Certain of the Series 1997-A, 1998-D and 1999-C Bonds have been escrowed until their respective first optional

F. Funded Debt, continued

redemption dates: the Series 1997-A redemption date is July 1, 2007; the Series 1998-D redemption date is July 1, 2008; and the Series 1999-C redemption date is January 1, 2010.

As of June 30, 2006, the scheduled balances outstanding for the following bonds which are considered defeased include:

	(in thousands)
1969 Series	$ 16,080
1971 Series	40,685
1973 Series	47,355
1982 Series	35,105
1997-A Series	112,390
1998-D Series	19,730
1999-C Series	97,540
Total defeased bonds	$ 368,885

Special Facility Bonds: To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal redevelopment and improvement, and maintenance facilities, the Authority has issued and has outstanding nine series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor.

As a result of United Air Lines filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "United Bonds") issued notice that the United Bonds were in default. Once the United Airlines Plan of Reorganization was approved by the bankruptcy court on February 1, 2006, this debt was discharged, along with other unsecured debt, and the bond holders are entitled to distribution along with other unsecured creditors.

On July 1, 2006 Delta Airlines reduced the number of gates that it occupied in Terminal A according to a Term Sheet dated June 2, 2006 and signed by Delta, the Authority and Ambac. To date during fiscal year 2007, Delta has paid the specified rental rate for the terminal space it occupies and has paid all landing fees that are due. Whether Delta Airlines assumes or rejects the Terminal A lease, the Authority is under no obligation to assume any liability for the Terminal A Special Facility bonds or to direct revenue, other than a portion of the Terminal A airline revenue, to service the debt.

The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth or any subdivision thereof and, accordingly, have not been reflected in the accompanying financial statements.

F. Funded Debt, continued

At June 30, 2006, the aggregate principal amount of the Authority’s special facilities revenue bonds outstanding was approximately $715.5 million.

Commercial Paper Notes: On March 10, 2005, the Authority amended its commercial paper program and increased the maximum principal amount outstanding at any time to an aggregate principal amount not to exceed $139 million, and entered into an amendment to the Letter of Credit Agreement with WestLB AG, acting through its New York Branch, to extend the term to December 15, 2015. The sum of the non-AMT (Alternative Minimum Tax) program (the “2003-A Series”) and the AMT program (the “2003-B Series”) will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding bonds or $139 million.

As of June 30, 2006, $20 million of 2003-A Series and $69 million of 2003-B Series were outstanding. As of June 30, 2005, $20 million of the 2003-A Series and $50 million of the 2003-B Series were outstanding. For the fiscal year from July 1, 2005 though June 30, 2006, the blended interest rate on Series 2003-A was 2.957% and Series 2003-B was 3.043%.

The existing commercial paper program has been issued under the terms of the 1978 Trust Agreement and is backed by the proceeds of the Improvement and Extension (“I&E”) Fund or anticipated bond funds. Currently, the proceeds of the commercial paper program are being used to fund PFC eligible projects. Therefore, the Authority expects that, when it is time to redeem the notes, PFC revenues will be the source of the cash to be transferred to the I & E Fund to pay such redemptions.

Commercial paper is defined as notes with a term of one to two hundred and seventy days. These notes are “rolled over” (or reissued) until they are repaid. The Authority currently expects to roll over all of the existing commercial paper through fiscal year 2009. In fiscal year 2006 the Authority rolled all outstanding paper and did not make any principal payments related to commercial paper.

The Authority’s Commercial paper notes as of June 30, 2006 and 2005 were as follows:

(in thousands)	2006	2005
Commercial paper notes, beginning of year	$ 70,000	$ 50,000
New commercial paper issued	19,000	20,000
Principal paid on commercial paper	-	-
Commercial paper notes, end of year	$ 89,000	$ 70,000

G. Interest Rate Swap

On July 1, 2002, the Authority entered into a pay-variable, receive-fixed interest rate swap with a term of ten years to refund synthetically $56 million of the Authority’s Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. The objective of the swap was to lower the interest rates paid on the 1999-D Bonds and 1998-E Bonds. The notional value of the swap was $100 million. On June 5, 2006 the Authority terminated the swap for a payment from

G. Interest Rate Swap, continued

Citigroup of $815,000 that included $98,021 of accrued interest and $716,979 of termination value. The termination was calculated at a rate of 3.895%. Over the life of the swap from July 1, 2002 through June 5, 2006 Massport was paid $9,025,652 by Citigroup.

Under the terms of the swap, the Authority paid a variable rate equivalent to the Bond Market Association ("BMA") Municipal Swap Index, which was 3.22 percent at June 5, 2006, and received fixed-rate payments at 4.05 percent. The Authority had pledged the Improvement and Extension Fund as security for its obligations under the swap agreement, specially designated a "swap account" within the Improvement and Extension Fund to be maintained at a level of $500,000 and agreed to maintain a balance of "available moneys" within the Improvement and Extension Fund of not less than $20 million.

Fair value. As of June 5, 2006 and June 30, 2005, the swap had a positive fair value of $716,979 and $4,529,684, respectively. The fair market value of the swap on June 5, 2006 was calculated by Citigroup per the termination process stipulated by the swap agreement. The fair value of the swap on June 30, 2005 was calculated by PFM Asset Management using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

Credit risk. The swap's fair value represented the Authority's credit exposure to the counterparty as of June 5, 2006 and June 30, 2005. If the counterparty to this transaction had failed to perform according to the terms of the swap contract, the Authority faced a maximum possible loss equivalent to the swap's fair value of $4,529,684 and $3,678,891 as of June 30, 2005, 2004 respectively. As of June 5, 2006, the swap counterparty, Citigroup Financial Products (with a guarantee from Citigroup Global Markets Holdings Inc.) (collectively, "Citigroup") was rated Aa1 by Moody's, AA by S&P and AA+ by Fitch. To mitigate credit risk, if the counterparty's credit rating had fallen below A3 by Moody's or A- by S&P, the swap would have been assigned to a third party reasonably acceptable to the Authority or the swap would have been terminated.

Interest rate risk. The swap increased the Authority's exposure to interest rate risk. As the BMA Municipal Swap Index increased, the Authority's net payment on the swap increased or net receipts decreased.

Termination risk. The Authority or the counterparty had the option of terminating the swap if the other party failed to perform under the terms of the contract. Citigroup could have terminated the swap (a) if the Authority's senior general obligation revenue debt had been rated less than A3 as determined by Moody's or A- by S&P, (b) if as of the last day of any calendar month, the available moneys on deposit in the Improvement and Extension Fund had been less than $20 million, or (c) if the amount on deposit in the Swap Account of the Improvement and Extension Fund thirty days prior to any payment date had been less than $500,000. If at the time of termination the swap had a negative fair value, the Authority would have been liable to the counterparty for that payment.

G. Interest Rate Swap, continued

In fiscal year 2006, the Authority received four quarterly payments from Citigroup totaling $1,305,402 of which $731,025 was applied to the debt service for the 1999-D Bonds and $574,377 was applied to the debt service for the 1998-E Bonds.

Interest expense for fiscal year 2006 was reduced by the net amounts received under the interest rate swap agreement of $1,305,402 for the fiscal year 2006 and by $2,606,512 for fiscal year 2005.

H. Pension Costs

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487"). This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"). Prior to this enactment, Authority employees were members of the Massachusetts State Employees' Retirement System, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory single employer defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909
http://www.massport.com/about/retir_public.htm

At January 1, 2006, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	514
Current members:	
Active	1,153
Inactive	73
Total	1,740

Benefits are paid by the Plan from net assets available for Plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the Plan participant and continued payments to the participant's beneficiary after the death of the participant.

H. Pension Costs, continued

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $73.5 million as of January 1, 2006 and $71.0 million as of January 1, 2005. The actuarial cost method utilized to determine contributions for the year ended December 31, 2005 is the Frozen-Entry-Age Actuarial Cost Method Plan. The more significant actuarial assumptions underlying the actuarial computations for the Plan year ended December 31, 2005 are as follows:

Assumed rate of return on investments	-	7.75% per annum compounded annually
Nondisabled life mortality basis	-	The RP-2000 Mortality Table
Withdrawal prior to retirement	-	The rates shown at the following sample ages illustrate the withdrawal assumption

	Rate of Withdrawal	
Age	**Group 1 and 2**	**Group 4**
25	9.0%	1.8%
30	5.6	1.7
35	3.2	1.3
40	2.3	0.5
45	1.8	0.04
50	1.5	N/A
55	N/A	N/A

Salary escalation	-	5.0% per annum
Rate of Inflation	-	3.0% per annum
Rates of retirement	-	

Group 1, 2 and 4 employees are assumed to retire at the following rates upon attainment of 10 years of service.

Age	**Groups 1 and 2***	**Group 4***
50	N/A	5%
51	N/A	5
52	N/A	5
53	N/A	5
54	N/A	5
55	9%	35
56	3	15
57	5	15
58	2	15
59	6	15
60	6	15
61	8	15
62	11	15
63	14	15
64	13	15
65	100	100

*Groups 1, 2 and 4 are assigned based on employee class.

H. Pension Costs, continued

Retirement benefits	-	Depending on age at retirement and "Group" classification, 0.1%-2.5% per year of service times highest three-year average salary.
Post retirement cost of living increases	-	3% per annum compounded annually on the first $12,000 of pension benefits.

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 7.75% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Total contributions to the Plan were $10,735,317 for the plan year ended December 31, 2005. This includes employee contributions of $7,005,825, which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975; 7% for employees hired between January 1, 1975 and January 1, 1984; 8% for employees hired after January 1, 1984 but prior to July 1, 1996; and 9% for employees hired after July 1, 1996; and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978), and the Authority's contribution of $3,729,492 to the Plan for the year ended December 31, 2005. Authority contributions are determined each year in accordance with an annual actuarial valuation performed for the Plan's fiscal year beginning January 1.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

Schedule of Funding Progress (in thousands):

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability ("AAL")	(b-a) Unfunded actuarial accrued liability ("UAAL")	(a/b) Funded ratio	(c) Covered payroll	(b-a)/c UAAL as a percent of covered payroll
1/1/05	$304,427	$293,550	($10,877)	103.7%	$71,030	(15.3%)
1/1/04	293,743	282,683	(11,060)	103.9%	$64,522	(17.1%)
1/1/03	275,618	261,594	(14,024)	105.4%	64,945	(21.6%)
1/1/02	293,120	294,457	1,337	99.5%	63,604	2.1%
1/1/01	285,609	285,209	(400)	100.1%	65,403	(0.6%)

H. Pension Costs, continued

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions
(in thousands)

Calendar Year ended December 31	**Annual required employer contributions (ARC)**	**Employer contributions as a percent of ARC**
2005	$3,729	100%
2004	$2,150	100%
2003	$1,842	100%
2002	-	0%
2001	-	0%

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation
Plan investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate, are valued based on net asset value at year-end. Limited partnerships are valued using the valuations reported by the general partner.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

I. Contingent Liabilities and Commitments

Contractual Obligations for Construction
Contractual obligations for construction were approximately $262,694,000 at June 30, 2006 and $438,289,000 at June 30, 2005.

I. **Contingent Liabilities and Commitments, continued**

Guarantee and Intercreditor Agreement

During fiscal 2002, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with The Bank of New York (the "Bank") in connection with an unrelated limited liability company's bonds. The bonds were issued in fiscal year 2000 to provide financing to the limited liability company (the "Company"), which is a tenant of the Authority, to fund construction of a multi-tenant seafood processing and distribution center (the "Facility") located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Facility was substantially completed and fully leased at June 30, 2002 and remained fully leased as of June 30, 2006. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to $10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. The Authority and the Company have also entered into an Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement") pursuant to which the Authority has agreed to advance for the benefit of the Company up to $10 million to the Bank under the Intercreditor Agreement in the event the Company fails to repay drawings on the letter of credit issued by the Bank to support the bonds and up to $900,000 to others for certain additional costs, and the Company has agreed to repay such advances over a term of up to 15 years, with interest on the unpaid balance at 5% per annum. Such obligations of the Authority are payable solely from available moneys, as defined, in the Improvement and Extension Fund and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

As of June 30, 2006, the Authority had advanced on behalf of the Company, $896,786 of the $900,000 authorized, and received repayments of $486,000, which included principal and interest on the loan. In the opinion of the Authority's management, no advance pursuant to the Intercreditor Agreement is anticipated during the next twelve months and, no further advances pursuant to the Reimbursement Agreement are anticipated during the next twelve months.

Third Harbor Tunnel

The Massachusetts Highway Department ("MHD") undertook a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority ("MTA") entered into a Roadway Transfer Agreement, which was supplemented and amended on October 27, 1999 and January 29, 2001, that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $365 million. The Authority made payments totaling $315 million through June 30, 2006. The remaining payment of $50 million is subject to MTA's satisfactory completion of the aforementioned segments in accordance with the Roadway Transfer Agreement.

On July 13, 2006 a portion of the ceiling of the I-90 Connector tunnel collapsed, killing one person. This led to a closure of the I-90 Connector tunnel and to restricted access to and use of the westerly end of the Ted Williams Tunnel. By Labor Day, one lane of the east bound

I. Contingent Liabilities and Commitments, continued

connector had reopened, the Ted Williams Tunnel was open in each direction and a connection from the Southeast Expressway to the Ted Williams Tunnel was functioning. The portion of the I-90 Connector containing the ceiling that collapsed is not and never has been included in the list of CA/THT roadway segments that Massport is scheduled to purchase. Moreover, these closures did not have a material impact on the results of operations.

Seaport Bond Bill

The Seaport Bond Bill was enacted on February 14, 1996 and among other things, provides for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston Yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston Yard in Boston permitting double stack shipments. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads. The Authority believes that the likelihood that any such Master Agreement will be executed and Authority funds committed for double stack improvements within the next fiscal year is remote.

Worcester Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") with the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement (the "OA"), which was amended in 2004.

The terms of the OA provide for the allocation of the net operating deficits for Worcester Regional Airport between the Authority and the City of Worcester, with the Authority assuming 100% of those net operating deficits during fiscal years 2005 and 2004. The OA was amended in 2004 to extend the term of the OA through June 30, 2007, and to allocate to the Authority responsibility for the following percentages of Worcester Regional Airport's operating deficit: for fiscal year 2005, 100%; for fiscal year 2006, 85%; and for fiscal year 2007, 68%. The Authority's portion of Worcester Regional Airport's actual deficits for fiscal year 2006 is $1,523,859 and budget deficits for fiscal year 2007 is projected to be $1,415,710. The entire projected loss for fiscal years 2005 – 2007 was accrued in fiscal year 2004. The actual deficits will be adjusted each year.

Phase Two, anticipated by the M.O.U. to take place prior to the termination date of the OA, may involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. However, legislation would be required to effectuate such transfer. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

J. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop.

In fiscal year 1992, the Authority's obligation to the City of Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT Agreement in fiscal year 1999 to provide for annual payments by the Authority to Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive. In fiscal year 2006, this amendment was extended through fiscal year 2010 with annual payments increasing to $600,000 commencing in fiscal year 2006.

In fiscal year 2005, the Authority and the Town of Winthrop were negotiating an extension to the original payment-in-lieu-of-tax agreement (the "Original Winthrop PILOT Agreement") which had expired in June 30, 2004. In fiscal year 2006, the Authority and the Town of Winthrop entered into an Amended and Restated Payment-In-Lieu-Of-Taxes Agreement (the "Amended Winthrop PILOT Agreement") which extended the base in-lieu-of-tax payments through fiscal year 2025. The Amended Winthrop PILOT Agreement provides for the Authority to pay 1) a one-time payment of $551,000 representing the sum that would have been paid to the Town of Winthrop in fiscal year 2005 had the term of the Original Winthrop PILOT Agreement been extended for fiscal year 2005 and 2) an annual payment of $900,000, provided that the annual payment will be adjusted in fiscal year 2016 through 2025 if the average annual percentage change in the consumer price index in fiscal year 2006 through 2015 is less than 2% or more than 8%.

In fiscal year 2006, the Authority and the City of Boston agreed to amend the existing payment-in-lieu-of-taxes agreement with the City of Boston, (the "Boston PILOT Agreement") effective July 1, 2005. Pursuant to the amended Boston PILOT Agreement (the "Amended Boston PILOT Agreement"), the term of the Boston PILOT Agreement was extended to June 30, 2015 subject to mutual rights to terminate the Amended PILOT Agreement each year after July 1, 2010. In fiscal year 2006, pursuant to the Amended Boston PILOT Agreement, the Authority paid to the City of Boston 1) a one-time payment of $3,500,000 representing the sum withheld by the Authority from the City of Boston from the PILOT payments due with respect to fiscal year 2002 due to the Authority's financial recovery plan as a result of the events of September 11, 2001 and 2) an annual base amount (the "Base Amount") of $14,000,000. After July 1, 2007, the Amended Boston PILOT Agreement provides that the Authority shall make the following fiscal year payments: 1) the Base Amount which, commencing in fiscal year 2007, increases annually by the annual percentage change in the consumer price index, provided that such increase shall be no less than 2%, nor greater than 8%, per year, and 2) commencing with fiscal year 2007 for ten (10) years, an amount of $700,000 which shall not be increased or adjusted.

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

K. Litigation

The Authority is engaged in routine litigation as well as litigation involving the terrorist attacks of September 11, 2001.

Events of September 11, 2001

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 ("9/11") could file a claim with a newly created Victim Compensation Fund (the "Fund"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. Approximately 98% of claimants eligible for compensation from the Fund filed a claim with the Fund.

In November 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"). The Act provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor". The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence and consequently, under ATSA the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

As of June 30, 2006, there were approximately twenty-nine (29) wrongful death lawsuits, two (2) personal injury lawsuits, nine (9) property damage lawsuits and four (4) cross claims against the Authority and other defendants. A number of other wrongful death lawsuits against the Authority and other defendants have been settled. These settlements have been achieved without any financial contribution from the Authority or its insurer though the settling plaintiffs have provided the Authority with a release.

The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "WTC"), World Trade Center Properties, LLC, the lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations for any such lawsuits expired on September 11, 2004.

K. Litigation, continued

Absent the limitation of liability in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based on the total amount of liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

Environmental Contamination

Historical contamination has also been discovered on various Authority properties located in South Boston. As the owner of the properties, the Authority is a "responsible party" under M.G.L. c.21E for costs of investigating and remediating the contamination at these sites. The full extent of the contamination and necessary remediation measures has not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

Other Litigation

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

L. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income including contingent payments received under these provisions was approximately $208,669,000 and $189,654,000 for fiscal years 2006 and 2005, respectively.

Minimum future rental incomes, excluding contingent rentals, from noncancelable operating leases as of June 30, 2006 are:

L. Leases, continued

Fiscal Year	Amount (in thousands)	Continued Fiscal Year	Amount (in thousands)
2007	$ 71,265	2042 - 2046	$ 50,187
2008	64,921	2047 - 2051	47,241
2009	57,740	2052 - 2056	47,354
2010	46,614	2057 - 2061	54,521
2011	18,987	2062 - 2066	62,829
2012 - 2016	69,802	2067 - 2071	72,461
2017 - 2021	62,268	2072 - 2076	83,627
2022 - 2026	57,668	2077 - 2081	96,572
2027 - 2031	60,262	2082 - 2086	111,578
2032 - 2036	67,810	2087 - 2091	128,974
2037 - 2041	65,928	2092 - 2096	149,141
		2097 - 2099	33,152
		Total	$ 1,580,902

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2006:

Fiscal Year	Amount (in thousands)
2007	$ 24,076
2008	21,959
2009	13,096
2010	10,460
2011	8,600
2012 - 2016	26,943
2017 - 2019	2,662
Total	$ 107,796

Rent expense was $25,638,000 and $24,509,000 for fiscal years 2006 and 2005, respectively.

M. Interagency Agreements

Investment in Joint Venture

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority (“MBTA”) for the construction of a Regional Transportation Center (“RTC”) in Woburn, Massachusetts (the “Interagency Agreement”). Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

M. Interagency Agreements, continued

The RTC opened in May 2001. For fiscal years 2006 and 2005, the RTC's operating losses were $283,307 and $292,500, respectively, and depreciation expense was $318,554 in both fiscal years. The Authority's proportionate share of RTC's operating losses and depreciation for fiscal years 2006 and 2005 is $200,621 and $203,685, respectively, which is included in "Other expenses" under "Nonoperating revenues (expenses)". Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: General Business Manager

Logan Airport Silver Line Transportation Agreement
The Authority entered into an agreement with the Massachusetts Bay Transportation Authority ("MBTA") to provide public transportation between South Station in Boston, Massachusetts and Logan Airport along a route called the Silver Line. Pursuant to this agreement the Authority has purchased and accepted delivery of eight buses for a cost not-to-exceed $13,300,000.

In addition, the MBTA and the Authority have entered into a ten-year agreement ending on December 30, 2015. Under this agreement, the MBTA will operate and maintain the Authority's Silver Line buses for a cost of $2 million per year, paid in equal monthly installments. The MBTA will remit to the Authority a per passenger amount for each passenger loading at Logan Airport. Also, under an August 2006 amendment to this agreement, the MBTA will reimburse the Authority approximately $258,000 for the MBTA's share of infrastructure improvements at Logan Airport related to installation of the MBTA's automated fare collection equipment.

N. Self Insurance

The Authority, as mandated by the 1978 Trust Agreement, maintains a self insurance account within the Operating Fund. As of June 30, 2006 and 2005, the self insurance account had assets of $41,314,000 and $41,570,000, respectively, available to pay future claims. The self insurance accruals are determined based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately $5,973,000 and $6,566,000 as of June 30, 2006 and 2005, respectively, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2006 and 2005 were as follows:

(in thousands)

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2005	$ 13,722	(2,086)	(5,070)	$ 6,566
2006	$ 6,566	3,507	(4,100)	$ 5,973

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet
June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
ASSETS			
CURRENT ASSETS			
Assets whose use is unlimited:			
Cash and cash equivalents	$ 40,642	$ -	$ 40,642
Investments	68,535	-	68,535
Assets whose use is limited:			
Cash and cash equivalents	66,867	3,698	70,565
Investments	259,977	26,909	286,886
Accounts receivable – net of allowance for doubtful accounts of $13,754 and $11,470 as of June 30, 2006 and 2005, respectively	29,287	3,554	32,841
Accounts receivable-grants	23,477	-	23,477
Prepaid expenses and other assets	4,211	479	4,690
Total current assets	492,996	34,640	527,636
NONCURRENT ASSETS			
Assets whose use is unlimited:			
Investments	11,707	-	11,707
Assets whose use is limited:			
Investments	125,685	26,884	152,569
Prepaid expenses and other assets	24,009	1,747	25,756
Investment in joint venture	3,061	-	3,061
Intangible assets, net	38,551	-	38,551
Capital Assets			
Completed facilities	2,788,094	661,367	3,449,461
Less accumulated depreciation	(1,063,508)	(107,784)	(1,171,292)
	1,724,586	553,583	2,278,169
Construction in progress	181,488	4,397	185,885
Capital assets, net	1,906,074	557,980	2,464,054
Total noncurrent assets	2,109,087	586,611	2,695,698
TOTAL ASSETS	$ 2,602,083	$ 621,251	$ 3,223,334

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet, Continued
June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 64,512	$ 8,755	$ 73,267
Compensated absences	1,144	-	1,144
Retainage	10,362	-	10,362
Current maturities of funded debt	42,114	11,092	53,206
Commercial paper notes	-	89,000	89,000
Accrued interest payable	31,822	5,300	37,122
Deferred income	4,680	-	4,680
Total current liabilities	154,634	114,147	268,781
NON-CURRENT LIABILITIES			
Accrued expenses	5,450	-	5,450
Compensated absences	21,740	-	21,740
Retainage	3,718	989	4,707
Funded debt	1,327,029	191,384	1,518,413
Deferred income	12,723	-	12,723
Total noncurrent liabilities	1,370,660	192,373	1,563,033
Total liabilities	1,525,294	306,520	1,831,814
NET ASSETS			
Invested in capital assets, net of related debt	547,752	266,428	814,180
Restricted:			
Bond funds	163,210	-	163,210
Project funds	183,725	-	183,725
Passenger facility charges	-	48,303	48,303
Other purposes	100,736	-	100,736
Total restricted	447,671	48,303	495,974
Unrestricted	81,366	-	81,366
Total net assets	1,076,789	314,731	1,391,520
TOTAL LIABILITIES AND NET ASSETS	$ 2,602,083	$ 621,251	$ 3,223,334

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
Operating revenues:			
Logan Airport			
Fees	$ 190,757	$ -	$ 190,757
Rentals	137,666	-	137,666
Concessions	51,948	-	51,948
Other	15,517	-	15,517
	395,888	-	395,888
Hanscom			
Fees	2,626	-	2,626
Rentals	2,890	-	2,890
Concessions	1,456	-	1,456
Other	191	-	191
	7,163	-	7,163
Bridge			
Tolls	28,008	-	28,008
Concessions	192	-	192
Other	61	-	61
	28,261	-	28,261
Maritime Operation			
Fees	44,186	-	44,186
Rentals	2,192	-	2,192
Concessions	80	-	80
Other	136	-	136
	46,594	-	46,594
Maritime Real Estate			
Fees	3,146	-	3,146
Rentals	12,243	-	12,243
Concessions	2	-	2
Other	847	-	847
	16,238	-	16,238
Operating grants	3,490	-	3,490
Total operating revenues	497,634	-	497,634
Operating expenses:			
Operations and maintenance	236,359	-	236,359
Administration	46,653	-	46,653
Insurance	6,632	-	6,632
Pension	3,715	-	3,715
Payments in lieu of taxes	15,771	-	15,771
Provision for uncollectible accounts	2,609	-	2,609
Depreciation and amortization	113,507	28,564	142,071
Total operating expenses	425,246	28,564	453,810
Operating income	72,388	(28,564)	43,824

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets, Continued
For the Year Ended June 30, 2006
(In Thousands)

	Authority Operations	PFC Program	Combined
Nonoperating revenues (expenses):			
Passenger facility charges	-	48,324	48,324
Investment income	17,912	2,736	20,648
Net change in the fair value of investments	(2,869)	(1)	(2,870)
Other revenues	351	-	351
Settlement of Claims	438	-	438
Other expenses	(2,766)	(14)	(2,780)
Gain on sale of equipment	102	-	102
Interest expense	(56,078)	(13,523)	(69,601)
Total nonoperating revenue	(42,910)	37,522	(5,388)
Income before capital grant revenue	29,478	8,958	38,436
Capital grant revenue	36,209	-	36,209
Increase in net assets	65,687	8,958	74,645
Net assets, beginning of year	1,011,102	305,773	1,316,875
Net assets, end of year	$ 1,076,789	$ 314,731	$ 1,391,520

APPENDIX B

SH&E International Air Transport Consultancy

BOSTON LOGAN INTERNATIONAL AIRPORT MARKET ANALYSIS

Prepared for:

Massachusetts Port Authority

Prepared by:

SH&E, Inc.

May 17, 2007

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SH&E International Air Transport Consultancy

Simat, Helliesen & Eichner, Inc.
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May 17, 2007

Massachusetts Port Authority
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909

Re: Boston Logan International Airport
Market Analysis

Dear Members of the Authority:

This report sets forth a market analysis of the historical and projected economic activity in the region served by Logan International Airport ("the Airport"), current and historical aviation trends, and a review of the Airport's existing long range aviation forecasts. SH&E consents to the inclusion of this report as Appendix B to the Preliminary Official Statement, dated May 17, 2007, for Massachusetts Port Authority Revenue Bonds, Series 2007-A and Revenue Refunding Bonds Series 2007-C, and also Massachusetts Port Authority PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds Series 2007-D.

This study includes an analysis of the underlying economic basis for air travel demand at Logan Airport and a review of current and long-term traffic and air service trends at the Airport. In this report, SH&E also presents an overview of the current state of the U.S. aviation industry and the potential impact of disruption in service should a carrier operating at the Airport cease operation. Finally, in this report, SH&E provides a review and opinion of the Massachusetts Port Authority's aviation activity projections for Logan Airport.

The analysis used in this report is consistent with industry practices for similar studies in connection with airport bond issuance. SH&E has relied on various published economic and aviation statistics, forecasts, and information, in addition to statistics provided directly by the Massachusetts Port Authority. SH&E believes that these sources are reliable, however SH&E's opinion could vary materially should some of these sources prove to be inaccurate. SH&E's opinions are based upon historical trends and expectations that it believes are reasonable. Some of the underlying assumptions, which are detailed explicitly or implicitly in this report, may or may not materialize because of unanticipated events or circumstances. SH&E's opinions could, and would, vary materially, should any key assumption prove to be inaccurate.

Sincerely,

SH&E, Inc.

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1 INTRODUCTION AND KEY FINDINGS

1.1 INTRODUCTION

The Massachusetts Port Authority ("Massport") retained Simat, Helliesen & Eichner, Inc. ("SH&E") to perform a market analysis of the Boston Logan International Airport ("Logan" or "Logan Airport" or the "Airport") in connection with the issuance by Massport of its Revenue Bonds, Series 2007-A and Revenue Refunding Bonds Series 2007-C, and also Massachusetts Port Authority PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds Series 2007-D (the "Bonds").

This study includes an analysis of the underlying economic basis for air travel demand at Logan Airport and a review of current and long-term traffic and air service trends at the Airport. In this market analysis, SH&E also presents an overview of the current state of the U.S. aviation industry and the potential implications for Logan. In addition, SH&E describes the potential impact of disruption in service should a carrier operating at the Airport cease operation, Massport's ability to regain and relet underutilized airport gates and presents its review and opinion of Massport's aviation projections for Logan Airport.

SH&E relied on information from a variety of published sources as the basis of this study, including data from the U.S. Department of Transportation ("DOT"), the Federal Aviation Administration ("FAA"), the Official Airline Guide ("OAG"), and industry information and surveys, as well as the financial records, airport planning documents and aviation activity records provided by Massport. As part of this study, SH&E did not evaluate, and does not offer an opinion on, the feasibility of the engineering, design plans, or costs of any of the projects being financed with the Bonds. Nor did SH&E engage in a legal review of purchase and sale documents, lease agreements, or engineering contracts.

SH&E's opinions are based upon historical trends and expectations that it believes are reasonable. Some of the underlying assumptions, which are detailed explicitly or implicitly elsewhere in this report, may or may not materialize because of unanticipated events or circumstances. SH&E's opinions could, and would, vary materially, should any key assumption prove to be inaccurate.

The opinions expressed herein are not given as an inducement or endorsement for any financial transaction. This report reflects SH&E's expert opinion and best

judgment based on the information available to it at the time of its preparation. SH&E does not have, and does not anticipate having, any financial interest in this transaction.

1.2 KEY FINDINGS

1.2.1 Logan Airport Strengths

- Logan serves the 11th largest domestic origin-destination ("O&D") air travel market in the U.S., with a domestic O&D passenger base of 20.4 million.
- The Logan service area is one of the strongest O&D markets in the country. In 2006, nine out of ten Airport passengers were O&D passengers. Logan is the principal airport for the core Boston metropolitan area and the principal airport for New England's domestic long haul and international services.
- Logan has become the Low Cost Carriers ("LCCs") airport for New England. Over the past three years, LCCs have grown rapidly and now account for more than 25 percent of the total domestic seats at the Airport, close to the national average.
- In 2006, Logan experienced one of the largest increases in yield compared to similarly sized markets. Its combination of passenger volumes and high yields makes the Airport one of the largest non-connecting hub U.S. airports in terms of total market revenue.
- Because of its geographic location in the Northeast and its large O&D base, Logan is a highly contested market and is not dominated by any single airline. As of April 2007, Delta Air Lines, the leading domestic service provider at Logan, and its regional affiliates, accounted for only 19 percent of the Airport's domestic scheduled seat capacity.

1.2.2 Boston Market Fundamentals

- Boston was the 5th most populated metro area in the nation in 2006[1],
- Boston is a high-income area. In 2006, the average per capita income for the Boston metro area was 32 percent higher than the national average.

[1] Source:Demographia, a Wendell Cox Consultancy (www.Demographia.com). The metropolitan area includes Boston-Worcester-Manchester, N.H.

- The Boston area is forecasted to maintain and increase its wealth advantage. Projections for the region indicate that the future average per capita income for the Boston area will be 37.0 percent greater than the national average by 2020.
- The region has a well-diversified economic base that is travel intensive. Leading industries include high technology, business services, financial services, higher education, and tourism.

1.2.3 Aviation Activity and Service Trends

- Logan experienced one of the largest traffic losses of any large hub airports in the U.S. after September 11th, 2001 ("9/11"). However, traffic has rebounded strongly, and in calendar year ("CY") 2007 is expected to exceed CY 2000 passenger levels for the first time, reaching record passenger activity.
- Passenger traffic grew by 14.6 percent in CY2004, 3.5 percent in CY 2005, and 2.4 percent in CY 2006. Despite slowing rates of growth during the past two years, Logan has outperformed the U.S. airport industry.
- Over a much broader time horizon, Logan passengers have more than doubled over the past three decades. Despite periodic declines resulting from economic downturns, external shocks, and short-term service disruptions, passenger traffic grew at an average annual rate of 3.0 percent from CY 1970 to CY 2000.
- The widespread introduction of regional jets and increasing load factors over the past three years have resulted in a rapid increase in the number of passengers per operation. During the 1990's Logan averaged between 55 and 60 passengers per operation. In CY 2006, this average reached almost 74 passengers per operation.
- As a consequence of larger numbers of passengers per operation, total aircraft operations at Logan have remained relatively constant over the past three years, despite a 20.6% increase in total passengers. Aircraft operations at the Airport are 18.2% below CY 2000 levels.
- Logan Airport is the 6th largest gateway for transatlantic traffic, and has a higher reliance on international passenger traffic than all non-hub U.S. airports, except one. Given the pending "Open Skies" air service agreement with the European Union, the Airport is likely to benefit from this liberalization.

1.2.4 Impact of Airline Industry Restructuring at Logan

- One airline currently at Logan Airport (Northwest) is operating under Chapter 11 bankruptcy protection. Other airlines, most notably Delta Air Lines, United Air Lines and US Airways have reorganized and scaled back operations. Several airlines have ceased operations in the past two years; however, at least one other, Virgin America, is attempting to launch service. The airline industry is in the process of fundamental change and it is possible that one or more of the airlines serving Boston could liquidate or consolidate.
- SH&E believes that, should one or more carriers currently operating at Boston cease operations, Logan is at a relatively low risk of losing passenger traffic, beyond some inevitable short-term disruption, because of the underlying strengths of the Boston market (large local O&D passenger base, above average income levels, travel intensive economic base, attractiveness as a destination market and rise of LCC service).

1.2.5 Logan Airport Gate Utilization

- Massport has various tools at its disposal to ensure that gates will not be underutilized, should existing leaseholders reduce their operations at Logan. These include an Airport-wide Preferential Gate Use Policy that applies to all gates, the use of short-term leases, and innovative recapture and sublet provisions that have been incorporated into long-term facility leases.
- Long-term leases with American, Delta, US Airways, and JetBlue contain recapture provisions that allow Massport to take control of underutilized gates and sublet them to other carriers if an airline's average gate utilization falls below the Airport standard. Leases with Delta and US Airways also contain provisions that limit the number of gates each may sublet, as well as provisions that allow Massport to require them to handle or sublet gates to new entrant airlines, which gives Massport additional control over gate utilization.
- The renegotiation of Delta Air Lines' Terminal A lease demonstrates the effectiveness of Massport gate control policies. Massport took back six contact gates and three regional jet aircraft parking positions from Delta in March of 2007, and now is in the process of reletting those gates. Massport has announced that it believes it will relet most, if not all, of these gates within 6 months.

1.2.6 Massport Activity Forecasts for Logan Airport

- Massport has adopted two forecasts for planning purposes:
  - A Financial forecast that is used to project future revenues and operating expenses; and
  - A Planning forecast that is used to anticipate facility needs and assess environmental impacts.
- Over the past three years, Logan Airport has outperformed the national average in terms of passenger growth. Logan has fully recovered from the events of 9/11 and the economic downturn which followed. Passenger traffic at Logan in 2006 is slightly ahead of what was achieved in 2000. Economic recovery within the region, reinstatement of service, expansion of low cost carrier service and reduction in airfares have all been contributing factors in the traffic growth over the last several years.
- SH&E expects that over the short-term the Airport will achieve average annual passenger growth consistent with its 2006 performance. Over the longer-term horizon, SH&E expects that passenger growth at Logan will moderate and will remain below the national average, reflecting Boston's maturity as an air travel market.
- In SH&E's opinion, Massport's Financial and Planning forecasts represent a reasonable range of future activity at the Airport. The Financial forecast, which assumes a long-term average growth rate of 1.5 percent, is conservative compared to the Airport's actual average annual growth of 1.9 percent from CY 1990 to CY 2000. The Planning forecast assumes 3.2 percent average annual passenger growth, which is higher than the Airport's most recent long-term growth; nevertheless the Planning forecast represents a reasonable high growth scenario. In SH&E's opinion, a reasonable forecast of future passenger activity at Logan would be bounded by Massport's Financial and Planning forecasts.

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2 Overview of Boston Logan International Airport

2.1 Introduction

Boston Logan Airport is the largest airport in New England and served over 27.0 million passengers in CY 2006. Logan is the principal airport for the greater Boston metropolitan area, as well as the international and long-haul gateway for much of New England

Over the past seven years the Airport has experienced market forces that have affected long established trends at the Airport. These trends have reflected larger, structural changes occurring industry wide in the U.S. aviation market; the impact of 9/11 and security issues, the rise of internet ticketing, airline financial distress and bankruptcy, and expansion of LCCs in the Northeast. All of these factors have influenced aviation activity at Logan Airport. However, the Airport also possesses its own unique dynamics that influence aviation activity and passenger growth in this market. Airport access, operational delays, constrained facilities, airport development, and regionalization have all affected how Logan has grown over the past decade, and how it will develop over the next decade. These factors, and their impact on Logan Airport's traffic development, will be considered in this section and throughout this study.

2.2 Logan Airport Service Area

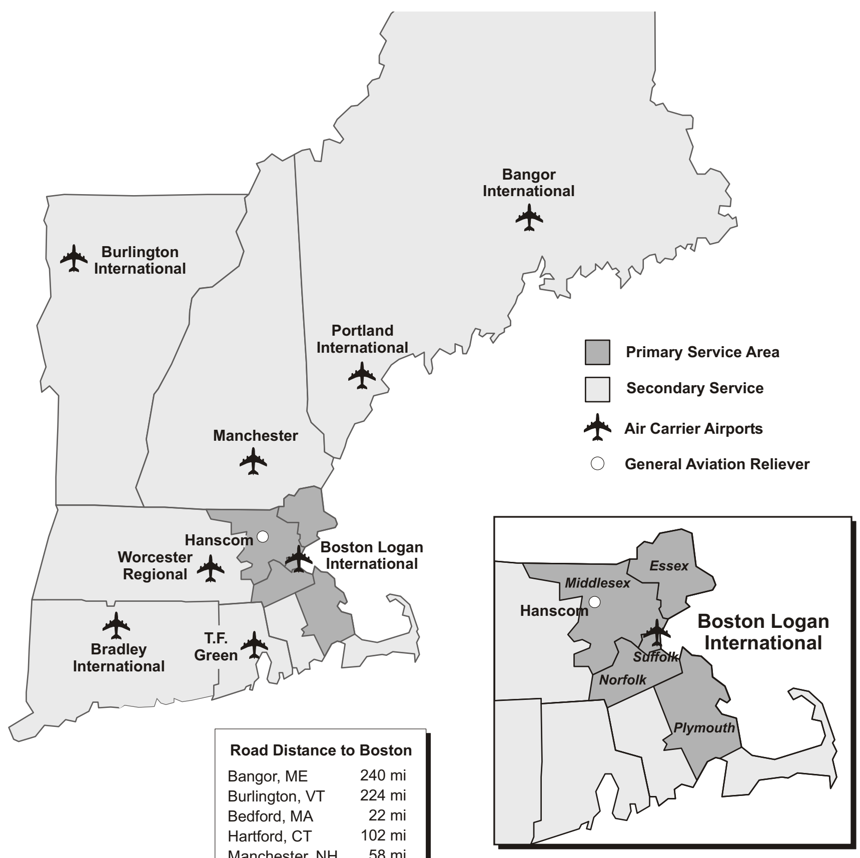
Logan Airport serves a number of roles in the local, regional New England and national air transportation networks:

1. Logan is the primary airport serving the Boston metropolitan area, and is the principal New England airport for long-haul domestic and international services.
2. Logan is a major U.S. international gateway airport for transatlantic services.
3. Logan serves as a regional connecting hub for small Northern New England markets and the Cape and Island markets.
4. Logan is an important air cargo center.

The service area of Logan is the geographic region from which the Airport draws its traffic. The quality of service at any airport, as well as the proximity and accessibility of other airports and the level of services offered generally determine airport service area boundaries. The "core" or primary service area generates the majority of an airport's passengers. The secondary service area extends outward from the core and may overlap with the service areas of other airports.

The core service area for Logan Airport is Suffolk, Middlesex, Norfolk, Essex and Plymouth counties in Massachusetts; referred to as the “Boston Service Area” (Exhibit 2-1). Logan is the principal commercial airport serving this region. While Hanscom Field (also owned and operated by Massport), is located within Logan’s primary service area, its principal function in the regional aviation system is as a general aviation reliever airport to Logan.

Exhibit 2-1: Boston Logan Airport, Primary and Secondary Service Areas



Road Distance to Boston	
Bangor, ME	240 mi
Burlington, VT	224 mi
Bedford, MA	22 mi
Hartford, CT	102 mi
Manchester, NH	58 mi
Portland, ME	108 mi
Providence, RI	50 mi
Worcester, MA	49 mi

Source: SH&E

The Airport's secondary service area encompasses Massachusetts and the other New England states. Smaller regional commercial service airports such as T.F. Green/Providence Airport in Warwick, Rhode Island and Manchester Airport in Manchester, New Hampshire, have some overlap with Logan's core service area and, particularly during the late 1990's, drew a portion of traffic from Logan's core service area through the rapid expansion of low cost carrier flight activity at these airports.

Other commercial service airports in the secondary service area are Worcester Regional Airport[2] in Worcester, Massachusetts; Portland International Jetport in Portland, Maine; Bangor International Airport in Bangor, Maine; Bradley International Airport in Hartford, Connecticut; and Burlington International Airport in Burlington, Vermont.

2.3 AIRPORT TRAFFIC CHARACTERISTICS

Logan Airport is one of the largest airports in the U.S. For the year ended September 30, 2006, Logan was the 19th busiest U.S. airport in terms of total enplaned and deplaned passengers (Exhibit 2-2 below). Logan experienced limited growth in CY 2003 over CY 2002 predominantly due to the continuing effects of 9/11 and its aftershocks which caused a significant decline in passenger activity at the Airport for CY 2001 and CY 2002. Passenger growth activity picked up significantly in CY 2004 when the Airport's passenger enplanements grew by 14.7 percent over CY 2003 levels. Passenger growth at Logan has returned to historical growth levels (Logan Airport experienced Average Annual Passenger Growth of 2.8 percent between CY 1995 and CY 2000) with traffic growing 3.5 percent in CY 2005 and 2.4 percent in CY 2006 over prior years.

[2] Massport operates the Worcester Regional Airport under an agreement with the City of Worcester and the Worcester Airport Commission. Scheduled commercial service at Worcester Regional Airport was discontinued in February 2003, and the airport had no service during 2004 and 2005. From January 2006 through January 2007, Allegiant offered service at Worcester Regional Airport to Orlando's Sanford Airport on a limited frequency basis. The airport currently has no commercial service.

Exhibit 2-2: Top U.S. Airports Based on Total Enplaned and Deplaned Passengers (YE Sept 2006)

Rank	Airport	Total Passengers	% Change From 2004
1	Atlanta	85,907,423	2.8%
2	Chicago O'Hare	76,510,003	1.3%
3	Los Angeles	61,489,398	1.3%
4	Dallas/Ft. Worth	59,176,265	-0.4%
5	Las Vegas	43,989,982	6.0%
6	Denver	43,387,513	2.6%
7	New York - JFK	41,885,104	8.9%
8	Phoenix Shy Harbour	41,213,754	4.3%
9	Houston	39,684,640	8.7%
10	Minneapolis/St. Paul	37,604,373	2.4%
11	Detroit	36,389,294	3.2%
12	Orlando	34,128,048	8.4%
13	New York - EWR	33,999,990	3.3%
14	San Francisco	32,802,363	2.0%
15	Philadelphia	31,495,385	10.5%
16	Miami	31,008,453	2.8%
17	Seattle	29,289,026	1.7%
18	Charlotte	28,206,052	12.1%
19	**Boston**	**27,087,905**	**3.6%**
20	Washington Dulles	26,842,922	18.5%

Source: Airports Council International – North America, 2005

Logan Airport is principally an O&D airport, meaning that the majority of passengers originate from or are destined for the Boston Service Area. Because of the Airport's geographic location on the Northeast U.S. coast, no major airline has established a domestic connecting hub complex here. Approximately nine out of ten (87.7 percent) passengers using Logan are local O&D passengers. This is one of the highest local O&D shares of any major U.S. airport (see Exhibit 2-3). Logan's high local O&D percentage has remained stable over time.[3] Since connecting passengers represent only a small percentage of Logan's total passenger traffic, long-term growth in airport passengers is primarily a function of the underlying market demand. Unlike major connecting hub airports, Logan is not subject to large traffic fluctuations associated with changes in a dominant carrier's network strategy.

[3] Since 1996, Logan's percentage of local O&D passengers has been estimated at between 86 and 95 percent.

Exhibit 2-3: Top U.S. Airports Based on Local O&D Demand (YE Sept 2006)

Local % Rank	Market	Domstic Passenger Split Local	Connect
1	Fort Lauderdale	91.6%	8.4%
2	Orlando	88.7%	11.3%
3	**Boston**	**87.7%**	**12.3%**
4	New York	80.2%	19.8%
5	Las Vegas	75.4%	24.6%
6	Baltimore	74.2%	25.8%
7	Seattle	72.0%	28.0%
8	Los Angeles	70.9%	29.1%
9	Washington	70.6%	29.4%
10	Phoenix	57.4%	42.6%
11	Chicago	50.3%	49.7%
12	Denver	49.2%	50.8%
13	Houston	45.0%	55.0%
14	Dallas/Fort Worth	43.6%	56.4%
15	Atlanta	34.8%	65.2%

Source: SH&E Estimates based on airport records, U.S. DOT, O&D and T100 Databases, Database Products

Logan Airport was one of the airports hardest hit by 9/11, as well as its aftershocks. Following this tragedy, departing passenger traffic at Boston dropped by 23.4 percent between Fiscal Year ("FY") 2000[4] and FY 2002, the second largest decline of any top 20 U.S. airport. This drop was almost twice the magnitude of average decline experienced within Logan's peer group. However, since FY 2002 traffic at the Airport has recovered, with Logan experiencing consistent growth. Between FY 2002 and Year Ending ("YE") September 2006[5], Logan experienced the sixth fastest growth among its peers (see Exhibit 2-4 below). For the period from FY 2002 to FY 2004, Logan experienced growth of approximately 19.1%. Growth slowed to approximately 6.6% for the period from FY 2004 to FY 2006. In the latest reported period, Logan handled 4.3 million more (or 27 percent) O&D passengers than it did four years ago (YE September 2006 vs. FY 2002). As at Logan, the rest of the 20 largest hub airports now also report O&D activity exceeding that of FY 2002.

[4] Massport has a fiscal year which ends on June 30th.
[5] The latest period from which O&D passenger statistics are available.

Exhibit 2-4: Top U.S. Airports Based on Domestic O&D Passenger Growth Over the Past Four Years (CY 2000 to YE Sept 2006)

YE 3Q06		Domestic O&D Passengers			Percent Change for Period		
Rank	Market	FY 2002	FY 2004	YE 3Q06	FY02-04	FY04-06	FY02-06
1	Washington	18,140,020	24,079,540	24,734,810	32.7%	2.7%	36.4%
2	Philadelphia	12,827,350	15,430,260	17,402,700	20.3%	12.8%	35.7%
3	Orlando	21,458,410	25,634,390	28,317,820	19.5%	10.5%	32.0%
4	Las Vegas	24,880,200	29,941,790	32,656,800	20.3%	9.1%	31.3%
5	Denver	16,997,040	19,580,110	21,919,110	15.2%	11.9%	29.0%
6	**Boston**	**16,074,920**	**19,153,130**	**20,414,670**	**19.1%**	**6.6%**	**27.0%**
7	New York	47,378,180	55,305,290	58,662,780	16.7%	6.1%	23.8%
8	Phoenix	19,204,820	22,163,140	23,763,520	15.4%	7.2%	23.7%
9	Minneapolis	12,439,840	14,187,790	15,259,850	14.1%	7.6%	22.7%
10	Houston	16,071,340	17,204,900	19,367,780	7.1%	12.6%	20.5%
11	Tampa	13,788,820	15,553,410	16,417,990	12.8%	5.6%	19.1%
12	Dallas/Fort Worth	22,342,950	24,276,210	26,291,370	8.7%	8.3%	17.7%
13	Fort Lauderdale	14,611,280	17,316,820	17,171,190	18.5%	-0.8%	17.5%
14	Chicago	35,245,540	38,747,390	41,149,950	9.9%	6.2%	16.8%
15	San Diego	13,336,360	14,694,810	15,420,360	10.2%	4.9%	15.6%
16	Seattle	17,660,630	18,833,440	19,963,370	6.6%	6.0%	13.0%
17	Atlanta	23,401,640	25,340,540	26,071,450	8.3%	2.9%	11.4%
18	Los Angeles	27,785,610	30,955,420	30,799,830	11.4%	-0.5%	10.8%
19	San Francisco	15,200,660	15,950,040	16,312,870	4.9%	2.3%	7.3%
20	Baltimore	15,002,260	15,637,710	15,648,700	4.2%	0.1%	4.3%

Source: U.S. DOT, O&D Database, Database Products

One reason for Logan Airport's rapid traffic rebound was a sharp decline in average domestic ticket prices on routes served by the Airport. Average fares at the Airport had been rising from 1990 through 2000, reaching a one-way peak average fare of $186.50 in 2000. Fares dropped significantly over 2001 and 2002 due to changes in the economy and the events of 9/11. Subsequently, there was a minor increase in average fares in 2003 and then a significant decline in 2004. Much of the ticket price decline at Logan can be attributed to JetBlue's arrival in Boston in 2004, AirTran's expansion of its Boston service, and Delta's Song initiative as well as the rapid growth of Southwest Airlines' service at the Manchester and Providence airports. Even with the recent fare increases, average ticket prices at Logan are still $22 or 14.0 percent lower in YE September 2006 than in YE September 2001.

In 2006, domestic passenger ticket prices at Logan, as measured in terms of airline yield (cents per seat mile) increased by 12.2 percent. This increase in yield was one of the largest of any major U.S. airport last year, as shown in Exhibit 2-5. Atlanta experienced the single largest increase as the bankrupt network carrier, Delta Air Lines slashed domestic capacity and led a number of successful industry-wide fare increases driven predominantly by the rising cost of jet fuel. New York's JFK airport, home of low cost carrier JetBlue Airlines, also witnessed a 15.2 percent increase in average yield as both network and LCCs increased average fares in response to rising jet fuel prices. JetBlue's yield at New York – JFK increased 12.9

percent while American, Delta, United, Northwest and US Airways experienced yield increases of 12.0 percent, 17.2 percent, 30.5 percent, 17.8 percent, and 23.7 percent, respectively. Continental Airlines was the only network carrier to not experience a yield increase with their average dropping 13.0 percent.

Exhibit 2-5: Top U.S. Airports in Terms of Increase in Domestic Yield Over the Past Year (YE Sept 2006 vs. YE Sept 2005)

		Avg. Stg.	Domestic Yield		
Rank	Airport	Length	YE 3Q05	YE 3Q06	% Chg.
1	Atlanta	869	15.20¢	17.67¢	16.2%
2	New York-JFK	1,593	8.62¢	9.93¢	15.2%
3	Philadelphia	1,117	11.05¢	12.54¢	13.5%
4	Las Vegas	1,223	8.92¢	10.10¢	13.3%
5	**Boston**	**1,227**	**10.97¢**	**12.31¢**	**12.2%**
6	Phoenix	1,130	10.15¢	11.31¢	11.4%
7	San Francisco	1,712	9.72¢	10.80¢	11.1%
8	Los Angeles	1,542	9.26¢	10.27¢	11.0%
9	Dallas/Fort Worth	1,021	15.05¢	16.61¢	10.4%
10	Seattle	1,411	9.70¢	10.68¢	10.1%
11	Orlando	1,073	9.89¢	10.89¢	10.0%
12	Chicago O'Hare	983	13.43¢	14.66¢	9.2%
13	Washington Dulles	1,236	12.20¢	13.22¢	8.3%
14	Minneapolis	1,034	14.40¢	15.51¢	7.7%
15	Miami	1,206	10.78¢	11.61¢	7.7%
16	Detroit Metropolitan	977	13.68¢	14.60¢	6.7%
17	Houston Intercontinental	1,064	14.48¢	15.27¢	5.4%
18	Denver	1,042	12.95¢	13.49¢	4.2%
19	New York-EWR	1,299	12.57¢	13.02¢	3.6%
20	Charlotte	850	18.56¢	18.81¢	1.3%

Source: U.S. DOT, O&D Database, Database Products

Yields have been steadily increasing industry wide as carriers have been removing capacity (seats) from their domestic systems and raising fares to combat rising fuel costs. Boston still remains a relatively high yield market (growing by 12.2 percent over the last year) and also one of the largest U.S. air travel markets in terms of passenger revenue generation. As shown in Exhibit 2-6, revenue generation is another measure of the strength of a market's air travel demand. For FY 2006, Boston ranked 12th among large non-connecting hub airports in terms of average yield and 9th in terms of passenger volume. As a result, Logan ranked 9th in terms of airline passenger revenues.

Exhibit 2-6: Top U.S. Airports Based on Annual Revenue Generation (YE Sept 2006)

Rank				Domestic	Passengers	Revenue
Yield	Psgr	Rev	Airport	Yield	(Million)	($ Million)
18	2	1	Los Angeles	10.27¢	30.8	$5,009.2
6	3	2	Chicago O'Hare	14.66¢	28.4	$4,205.9
19	1	3	Las Vegas	10.10¢	32.4	$4,118.1
2	5	4	Atlanta	17.67¢	26.1	$4,105.8
3	8	5	Dallas/Fort Worth	16.61¢	21.3	$3,737.3
15	4	6	Orlando	10.89¢	28.3	$3,423.3
10	11	7	New York-EWR	13.02¢	19.6	$3,379.1
8	7	8	Denver	13.49¢	21.9	$3,202.9
12	**9**	**9**	**Boston**	**12.31¢**	**20.4**	**$3,175.9**
17	10	10	Seattle	10.68¢	19.9	$3,142.5
14	6	11	Phoenix	11.31¢	23.8	$3,132.4
16	14	12	San Francisco	10.80¢	16.3	$3,114.6
20	13	13	New York-JFK	9.93¢	17.0	$2,717.0
4	15	14	Minneapolis	15.51¢	15.3	$2,540.9
11	12	15	Philadelphia	12.54¢	17.4	$2,517.0
5	17	16	Houston Intercontinental	15.27¢	13.4	$2,235.4
7	16	17	Detroit Metropolitan	14.60¢	14.9	$2,208.1
9	18	18	Washington Dulles	13.22¢	11.0	$1,838.9
13	19	19	Miami	11.61¢	9.4	$1,361.6
1	20	20	Charlotte	18.81¢	7.7	$1,298.2

Source: U.S. DOT, O&D Database, Database Products

Because of its large local O&D base and high revenue generation, Boston is a very competitive market, and is unique in this respect compared to other large airports. When compared to the leading carriers' percentage shares for carriers operating at Logan's peer airports, the largest carrier at Logan has one of the lowest market share statistics. More importantly the top three carriers at Logan have a balanced market share, more than at any large hub U.S. airport (Exhibit 2-7). As of March 2007, Delta Air Lines, the largest domestic air service provider at Logan, accounts for only 20.3 percent of the Airport's scheduled domestic seat capacity. US Airways is nearly as large with a 19.6 percent domestic share, while jetBlue and American Airlines, respectively with 16.1 percent and 14.6 percent of domestic scheduled seats, are close behind in terms of market share. Such relative parity among the top four carriers is only found at two other large hub U.S. airports, and indicates that airlines are actively competing for share in the Boston market.

Boston is one of the few markets where a carrier's strategic actions can dramatically affect its market position. The contestability of the Boston market is evidenced by the evolving market shares over time. US Airways, American and Delta, have each been the largest carrier at Logan for some portion of time since 1990. But more importantly, the balance of service provided by the second and third carriers has also changed over time.

Exhibit 2-7: Domestic Carrier Market Share at Boston Logan and Other Large-Hub Airports, Share of Scheduled Seats (March 2007)

		Carrier Share of Non-Stop Domestic Weekly Seats			
Rank	Airport	Largest	2nd Largest	3rd Largest	All Other
1	Fort Lauderdale	15.1%	14.7%	14.2%	55.9%
2	**Boston**	**20.3%**	**19.6%**	**16.1%**	**43.9%**
3	Orlando	23.7%	16.4%	10.9%	49.0%
4	New York-LGA	24.3%	23.0%	21.1%	31.7%
5	Los Angeles	26.4%	20.1%	19.5%	34.0%
6	Las Vegas	40.7%	22.4%	7.5%	29.4%
7	Phoenix	42.4%	34.9%	4.3%	18.4%
8	Washington National	45.5%	14.8%	13.4%	26.4%
9	New York-JFK	49.7%	25.3%	14.3%	10.7%
10	Chicago O'Hare	50.9%	37.9%	3.0%	8.2%
11	Seattle	51.5%	11.4%	10.1%	27.0%
12	Denver	54.9%	21.5%	5.5%	18.1%
13	San Francisco	55.8%	12.7%	6.6%	24.8%
14	Baltimore Washington	58.5%	11.0%	6.8%	23.7%
15	Philadelphia	60.3%	15.9%	4.8%	18.9%
16	Cleveland	63.6%	13.0%	5.1%	18.3%
17	Washington Dulles	67.5%	8.5%	4.9%	19.0%
18	New York-EWR	68.1%	7.3%	4.7%	20.0%
19	Salt Lake City	68.8%	15.8%	4.2%	11.2%
20	Atlanta	70.9%	20.5%	2.5%	6.1%
21	Detroit	73.4%	5.9%	4.6%	16.0%
22	Minneapolis	76.4%	6.1%	3.6%	13.8%
23	Dallas/Fort Worth	84.2%	2.6%	2.5%	10.7%
24	Charlotte	87.2%	3.3%	2.6%	6.9%
25	Houston Intercontinental	87.7%	3.0%	2.2%	7.1%

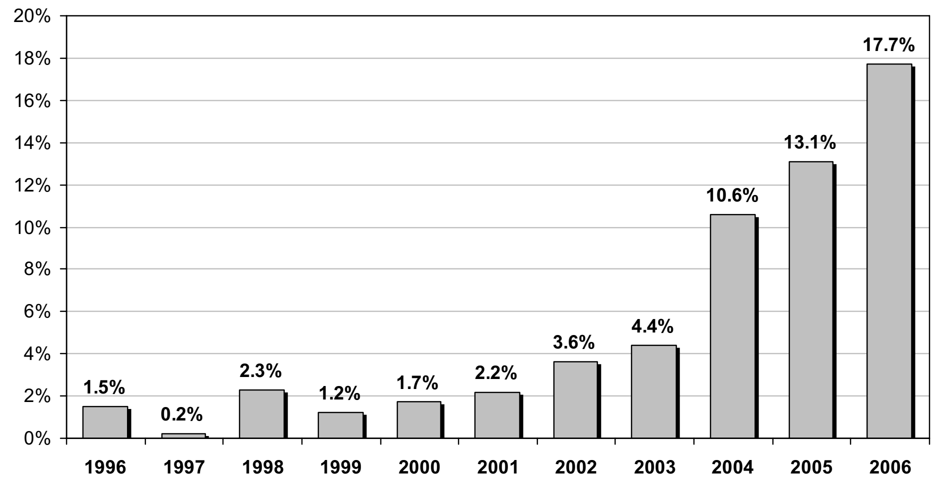
Source: OAG Schedule Tapes, March 2007

2.4 LOW COST CARRIER DEVELOPMENT

Logan Airport has experienced significant low cost carrier expansion over the past three years (CY 2004 to CY 2006) which has changed the air service dynamics within this market (Exhibit 2-8 below). Until relatively recently, Logan had limited low cost carrier service. In the mid 1990's, Southwest Airlines developed a strategy of serving the Boston market through Providence and Manchester, intentionally bypassing service to Logan. As late as 2001, LCCs at Logan averaged roughly 2.0 percent share of the total seats offered. However, as can be seen in Exhibit 2-8, the picture has changed strikingly over the last three years. Starting in 2004, Logan experienced a rapid increase in the LCCs' share of total departures and seats; growing from 4.4 percent of weekly domestic seats in the Boston market in 2003, to 10.6 percent in 2004, and to 13.1 percent in 2005. In August 2006, 17.7 percent of all domestic seats offered at Logan were offered by LCCs. The exponential growth over the past three years has caused Logan to almost reach the national average for LCC market share. As of March 2007, LCCs provided 23.2 percent of seats at Logan. For the same period, LCCs provided approximately 26.0

percent of all domestic scheduled seats operated in the U.S. and are continuing to grow, though somewhat more slowly than in the recent past.

Exhibit 2-8: Increase in Low Cost Carrier Penetration at Logan, Weekly Seats (August 1995 to August 2006)



Source: OAG Schedule Tapes, August Month

Logan Airport is currently served by three LCCs : AirTran, JetBlue, and Spirit Airlines with American Trans Air (ATA) and Independence Air discontinuing service in 2005[6].

Exhibit 2-9: Growth in Weekly Low Cost Carrier Service at Logan (August 2004 to August 2006)

	2004			2005			2006		
Carrier	Depts.	Seats	Share	Depts.	Seats	Share	Depts.	Seats	Share
AirTran Airways	149	17,433	41.5%	155	18,135	37.7%	206	24,375	36.8%
American Trans Air	26	4,740	11.3%	32	5,440	11.3%	-	-	0.0%
Independence Air	112	5,600	13.3%	56	4,932	10.2%	-	-	0.0%
JetBlue	91	14,196	33.8%	126	19,656	40.8%	318	39,640	59.9%
Spirit Airlines	-	-	0.0%	-	-	0.0%	16	2,208	3.3%
Total	**378**	**41,969**	**100.0%**	**369**	**48,163**	**100.0%**	**540**	**66,223**	**100.0%**

Source: OAG Schedule Tapes, August Month

[6] For the purposes of this report, SH&E does not consider US Airways a LCC, because the carrier generates fares at Logan Airport comparable to legacy carriers. The average domestic stage length adjusted yield for US Airways from Logan was 17.4¢ per Available Seat Mile ("ASM") for the YE Sept 2006. This revenue performance was comparable to legacy carrier yield of 18.9¢ (legacy carriers used for this comparison included American, United, Delta, Northwest and Continental). This is in contract to the average yield generated by LCCs at Logan which, for the same period, was 11.8¢ per ASM.

JetBlue is currently the largest LCC at Logan in terms of frequencies; offering 45 daily flights to 19 destinations. Approximately one-quarter of these destinations are to Florida markets (Ft. Lauderdale, Orlando, West Palm Beach, Fort Myers, and Tampa). Another 42 percent of JetBlue flights originating in Boston are to long-haul markets (Austin, Denver, Las Vegas, Long Beach, Oakland, Phoenix, Seattle, San Jose, and Nassau) in keeping with JetBlue's intended expansion plans at Logan. The balance of destinations offered by JetBlue are to medium- to short-haul markets along the busy northeast corridor (Buffalo, Washington – IAD, New York – JFK, Pittsburgh, and Richmond). JetBlue moved into the Terminal C space vacated by Delta Air Lines when the latter moved to Terminal A in 2005. The carrier signed an agreement with Massport in January 2005 to take over 11 gates and 28 ticket counter positions in Terminal C by November 1, 2008 and to invest more than $9 million in the refurbishment and upgrade of its new terminal facilities. JetBlue currently operates from eight gates and 20 ticket counter positions[7].

The second largest low cost carrier at Logan, AirTran, started service at the Airport in 1997 with four daily flights to Atlanta. Since 2002, the carrier has steadily added service and new markets. AirTran currently offers 29 daily departures to seven destinations (Atlanta, Baltimore, Akron/Canton, Chicago – MDW, Newport News, Philadelphia, and Rochester). Boston has been a successful market for AirTran and with a backlog of new aircraft on order, it is likely that the carrier will continue its expansion of service at Logan. AirTran currently occupies four gates in Logan's Terminal C, one of which is sublet from United Airlines.

Spirit Airlines started service at Logan in August 2006 with non-stop daily service to Detroit and Myrtle Beach. These flights are flown using Spirit Airbus A319s capable of holding 138 passengers. Spirit is currently located in Terminal B at Logan, subleasing space from US Airways.

2.5 Market Shift Due To Rapid Growth of Low Cost Carrier Service At Logan

The rise of LCCs at Boston has changed the market dynamics between the three airports that provide overlapping service in New England; Logan Airport, T.F. Green/Providence and Manchester. Southwest Airlines introduced service at T.F. Green in 1996 and at Manchester in 1998. Between 1996 and 2002, higher service

[7] JetBlue Annual Report, 2006.

levels and competitive airfares raised the profile of these airports, transforming them into attractive alternatives to Logan.

From 1995 to 2000, overall domestic air travel at major airports in New England grew by 5.9 percent annually, almost 50.0 percent higher than the U.S. industry average, which grew by 4.0 percent annually. However, over that period passenger traffic at Logan Airport grew more slowly, by an average of 2.8 percent per year. T.F. Green and Manchester gained extensive new service from Southwest Airlines and experienced significant growth in passenger traffic. These airports grew at average annual rates of 20.0 and 29.0 percent, respectively, from 1995 to 2000 (Exhibit 2-10). However, viewed as a single market comprised of the three airports, the region grew at an average annual rate of 5.9 percent.

Exhibit 2-10: Passenger Activity at New England Regional Airports and Logan Airport (in Millions)

	Airport Passengers					Compounded Annual Growth			
Airport	**1995**	**2000**	**2002**	**2004**	**2006**	**CY95/00**	**CY00/02**	**CY02/04**	**CY04/06**
Logan Airport	24.19	27.73	22.70	26.14	27.09	2.8%	-9.5%	7.3%	1.8%
T.F. Green/Providence	2.17	5.43	5.39	5.51	5.26	20.1%	-0.4%	1.1%	-2.3%
Manchester, NH	0.90	3.17	3.36	4.00	3.90	28.6%	3.0%	9.1%	-1.3%
Regional Market	**27.26**	**36.33**	**31.45**	**35.65**	**36.25**	**5.9%**	**-7.0%**	**6.5%**	**0.8%**
Boston Logan Airport	**24.19**	**27.73**	**22.70**	**26.14**	**27.09**	**2.8%**	**-9.5%**	**7.3%**	**1.8%**
Providence / Manchester Combined	**3.07**	**8.60**	**8.75**	**9.51**	**9.16**	**22.9%**	**0.9%**	**4.3%**	**-1.9%**

Source: Individual Airport Reports, Note: 2006 Total Passengers for T.F. Green annualized based upon YTD –July reported passengers.

Between CY 2000 and CY 2002, T.F. Green and Manchester were much less affected than Logan in terms of traffic reductions. While Logan declined by 9.5 percent per year for the two-year period, T.F. Green experienced a minimal decline and Manchester actually continued its growth, however at a more gradual pace.

Between CY 2002 and CY 2004, with the advent of an economic recovery and expansion of low cost carrier activity at Logan, passenger traffic at the Airport grew by an average 7.3 percent per year. Manchester resumed strong growth at 9.2 percent annually, while T.F. Green did not experience the same level of growth, growing at a rate of 1.1 percent annually.

In the past two years, passenger traffic at Logan has grown by an average of 1.8 percent per year, while T.F. Green and Manchester have experienced declines of 2.3 percent and 1.3 percent, respectively or a 1.9% combined rate of decline, partially driven by the increased low cost carrier competition from jetBlue, AirTran, and Spirit at Logan. Within the course of the past 5 years, the low cost carrier passenger

competition appears to have shifted to Logan's favor through the new service provided by these carriers. Based on continued announcements of new low cost carrier service at Logan, this trend will likely continue, however, at a slower rate (as described further in Chapter 5 of this report).

3

Economic Characteristics of the Boston Logan Service Area

3.1 Introduction

A number of economic, demographic and social factors in the Boston Service Area impact traffic flow through the Airport. Two factors in particular, income and population, are highly correlated to the level of air travel and serve as strong predictors of future travel demand. As a major business and leisure destination, the local economic climate and leisure industries are critical to the Boston Service Area and their associated travel influences passenger traffic at the Airport.

Air travel demand in the U.S. has largely rebounded from the multiple shocks to the air transportation system since 2000. The economic downturn, increasing unemployment in early 2001, the events of 9/11 and threat of additional terrorist activities, the Iraq war, and the SARS epidemic, all combined with the downturn in the business cycle to create an unprecedented decline in U.S. air travel.

Despite external market shocks, the Boston Service Area has demonstrated a high level of resilience to economic adversity over time. The underlying economic characteristics of the region are strong and steady; income, employment and population indicators have remained relatively stable and have tended to outperform national averages. Total employment levels for the region are currently at an all time high. Average per capita income is currently 32.0ercent higher than the national average, and economic forecasts project this gap is expected to grow over time.

In summary, current economic indicators present positive signs both for the Boston Service Area and the New England region. Long term projections of economic activity for the Boston Service Area suggest that demand for air travel in the region will continue to grow at sustained but stable growth rates.

This section of the report reviews various economic indicators for the region and the outlook for long-term demographic and economic growth.

3.2 ECONOMIC TRENDS AND FUTURE OUTLOOK

Massachusetts appears to be recovering well from the economic challenges experienced earlier in the decade. Since 2003, the economy has been improving with an increased growth of Massachusetts Real Gross State Product ("GSP") and an increase in jobs. Particularly strong, professional services and health care industries in the Boston Service Area are growing, and together provide 33 percent of local employment, while construction employment has been increasing at the fastest rate.

3.2.1 Review of Historic Economic Trends in Boston and Massachusetts

For most of the 1980s, economic growth in the Boston Service Area and Massachusetts overall significantly outpaced national economic growth. The region's computer and defense related industries were the sectors which most contributed to the region's impressive economic growth during the 1980s. However, changes in the demand for computer products, such as the shift from mainframe to personal computers, and massive reductions in federal defense spending contributed to the region's economic recession that began in 1989, more than a year in advance of the national recession. This recession was severe and extended for approximately four years, continuing into 1992. In 1990 and 1991, the Massachusetts GSP declined by over 3.0ercent each year. The State's unemployment rate, which had been as low as 2.8 percent in mid-1987, rose to 9.6 percent in mid-1991, nearly 3.0ercentage points above the national unemployment rate.

However, the region's economy diversified and recovered with economic growth that once again consistently exceeded the nation as a whole. From 1994 to 2000, Massachusetts' GSP grew at an average annual rate of 5.5 percent, compared to annual growth of 3.8 percent for U.S. Real Gross Domestic Product ("GDP"). High technology companies led the region's economic growth and expansion, but in a far more diversified manner than in the 1980s. The computer related industries - hardware, software, communications equipment and providers, internet providers, and other related businesses - emerged at the forefront of the national growth relative to peers in these industries. At the same time, the region's economic base also expanded with exceptional growth in service industries, particularly business, financial and professional services, tourism related industries, education and health care services, and other non-manufacturing sectors. Six major industries, which cross traditional definitions of industry sectors and account for more than one half of the Boston area employment base, have produced a disproportionate share of the region's economic growth since the early 1990s.

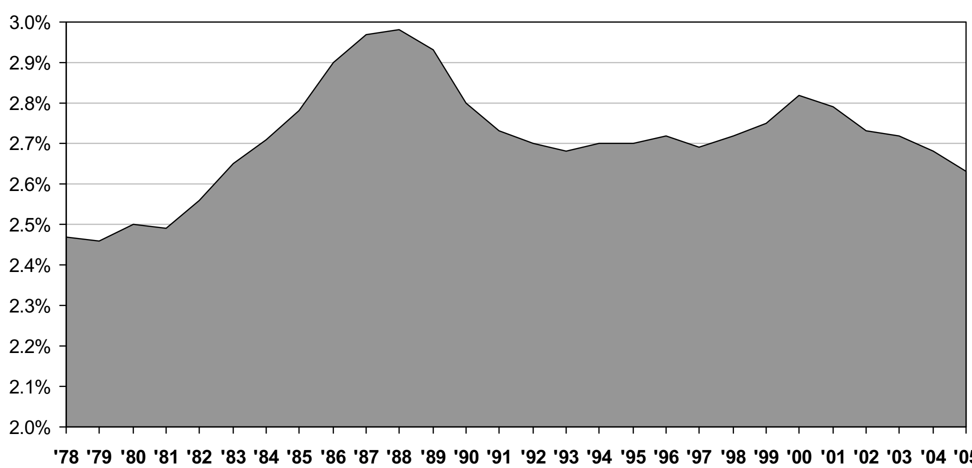
These leading industries are:

- High technology
- Biotechnology
- Financial services
- Health care
- Education and consulting
- Tourism

Massachusetts GSP and U.S. GDP

The strength and growth of the region's economy is reflected in its GSP and unemployment performance when benchmarked against national and other major metropolitan markets. In 1988, Massachusetts' GSP peaked at a 3.0 percent share of national GDP. Massachusetts' GSP then declined to a low of 2.7percent of U.S. GDP in 1993, because the State's recession was more severe than national trends and recovered more slowly than the nation. In the last seven years, Massachusetts's GSP reached a high of 2.8 percent share of U.S. GDP in 2000 but had declined to 2.6 percent of U.S. GDP in 2005 (Exhibit 3-1).

Exhibit 3-1: Massachusetts GSP as a Percent of U.S. GDP (1978 to 2005)

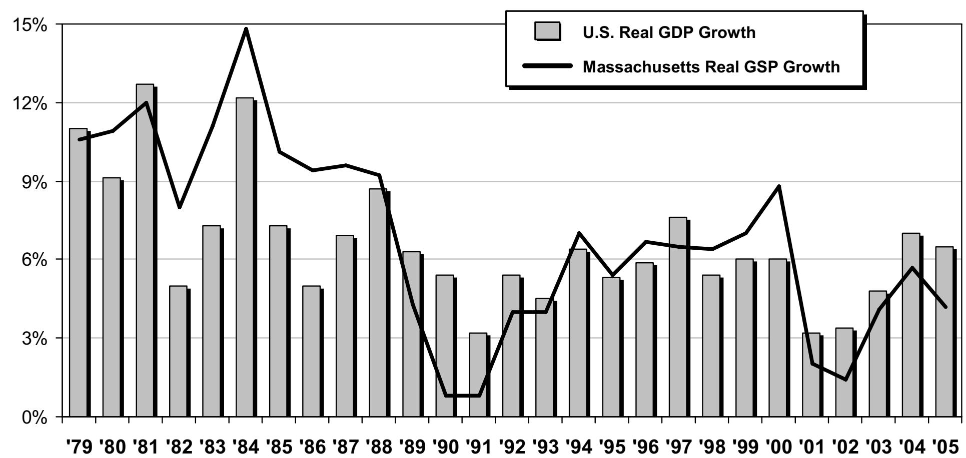


Source: U.S. Department Of Commerce, Bureau Of Economic Analysis (BEA)

In recent years Massachusetts' GSP has been growing, but at a slower rate than U.S. GDP. The average annual growth rate from 2000 to 2005 for Massachusetts' GSP

was 3.5 percent while U.S. GDP grew at 4.9 percent annually. Annual growth rates for Massachusetts and the U.S. are shown in Exhibit 3-2 below.

Exhibit 3-2: Annual Growth in Massachusetts GSP and U.S. GDP (1979 to 2005)



Source: U.S. Department Of Commerce, Bureau Of Economic Analysis (BEA)

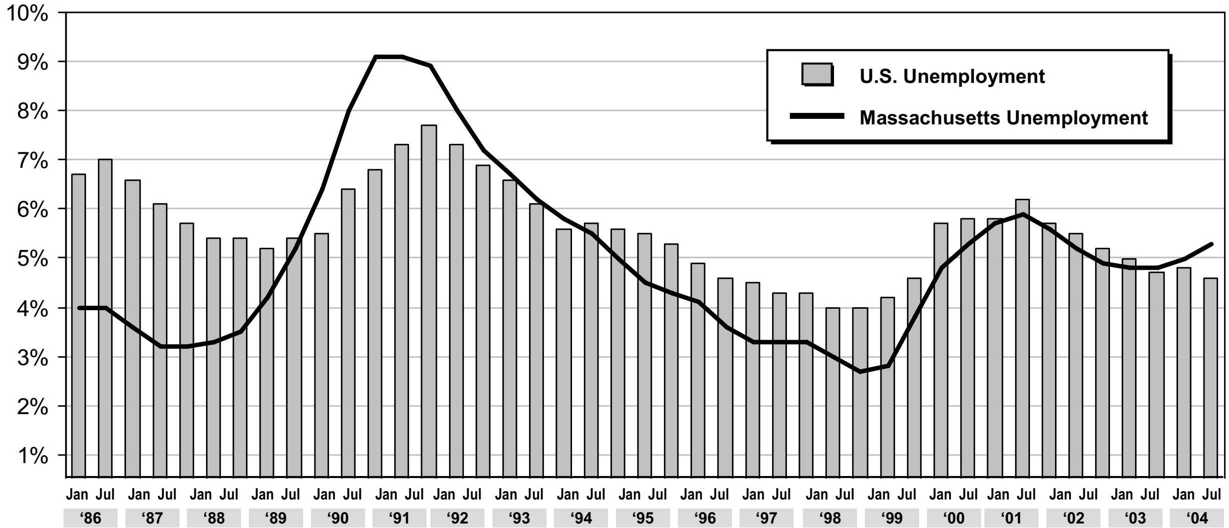
Employment

Unemployment in Massachusetts has historically been below the national average (see

Exhibit 3-3). Between 1986 and 1991, the U.S. unemployment rate remained higher than in Massachusetts, but in the early 1990's, the economic recession significantly impacted Massachusetts and its unemployment rate rose to a level significantly higher than the U.S. average. The State recovered from that situation and from 1996 to 2005 the unemployment rate remained below the U.S. average. Unfortunately, with the labor force population growing at a faster pace than the job creation, the unemployment rate in Massachusetts has grown and has exceeded the average U.S. unemployment rate since January 2006, reaching 5.3 percent. It is important to reiterate that overall employment in the State increased from 2004 to 2006.

The unemployment rate in the Boston area has been on the rise. Boston is ranked 37th in unemployment among metropolitan areas with an unemployment rate of 5.2 percent as of February 2007 (see Exhibit 3-4). For comparison purposes, in December 2004, Boston ranked 6th in unemployment rates with unemployment at 3.5 percent of the population, according to the Bureau of Labor Statistics.

Exhibit 3-3: Unemployment Rates for Massachusetts and the U.S. (1986 to 2007)



Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

Exhibit 3-4: Unemployment Rate for Large Metropolitan Areas – Monthly Rankings (February 2007)

Rank	Metropolitan Area	February 2007 Unemployment Rate
4.0 % Unemployment or Lower		
1	Miami-Fort Lauderdale-Pompano Beach, FL MSA	3.1
1	Orlando-Kissimmee, FL MSA	3.1
3	Jacksonville, FL MSA	3.2
3	Washington-Arlington-Alexandria, DC-VA-MD-WV M	3.2
5	Richmond, VA MSA	3.3
5	Tampa-St. Petersburg-Clearwater, FL MSA	3.3
7	Birmingham-Hoover, AL MSA	3.4
7	Phoenix-Mesa-Scottsdale, AZ MSA	3.4
7	Virginia Beach-Norfolk-Newport News, VA-NC MSA	3.4
10	Austin-Round Rock, TX MSA	3.8
10	New Orleans-Metairie-Kenner, LA MSA	3.8
4.0 % - 4.9 % Unemployment		
	22 Metropolitan Areas	
Over 5 % Unemployment		
34	Chicago-Naperville-Joliet, IL-IN-WI MSA	5.0
34	Rochester, NY MSA	5.0
36	Riverside-San Bernardino-Ontario, CA MSA	5.1
37	**Boston-Cambridge-Quincy, MA-NH M NECTA**	**5.2**
37	Cincinnati-Middletown, OH-KY-IN MSA	5.2
39	Sacramento--Arden-Arcade--Roseville, CA MSA	5.3
40	Buffalo-Niagara Falls, NY MSA	5.4
41	Kansas City, MO-KS MSA	5.5
41	Milwaukee-Waukesha-West Allis, WI MSA	5.5
43	Portland-Vancouver-Beaverton, OR-WA MSA	5.6
44	Memphis, TN-MS-AR MSA	5.7
44	Providence-Fall River-Warwick, RI-MA M NECTA	5.7
44	St. Louis, MO-IL MSA	5.7
47	Cleveland-Elyria-Mentor, OH MSA	5.9
47	Louisville-Jefferson County, KY-IN MSA	5.9
49	Detroit-Warren-Livonia, MI MSA	6.7

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

In Exhibit 3-5, U.S. metropolitan areas are listed based upon total non-farm employees. The Boston Service Area is ranked 9th, with 2.4 million employees as of February 2007, an increase of 1.2 percent year-over-year. The region experienced declines in total non-agricultural employment from 2002 to 2004. However, from 2005 to 2006 employment increased, but remains below the high of 2001.

Exhibit 3-5:Non-Farm Employment for Major Metropolitan Areas and Total U.S. Non-Seasonally Adjusted (February 2006 to February 2007)

Metropolitan Area	Employee Rank	Non-Farm Employees (000) Feb 2007	Feb 2006	Net Change	Pct Change	Rank by Percent Change
New York-Northern New Jersey-Long Island, NY-NJ-PA MSA	1	8,363.8	8,277.1	86.7	1.0%	20
Los Angeles-Long Beach-Santa Ana, CA MSA	2	5,647.1	5,589.8	57.3	1.0%	21
Chicago-Naperville-Joliet, IL-IN-WI MSA	3	4,455.9	4,413.7	42.2	1.0%	23
Washington-Arlington-Alexandria, DC-VA-MD-WV MSA	4	2,967.7	2,919.6	48.1	1.6%	14
Dallas-Fort Worth-Arlington, TX MSA	5	2,896.3	2,802.3	94.0	3.4%	4
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	6	2,786.7	2,760.4	26.3	1.0%	24
Houston-Sugar Land-Baytown, TX MSA	7	2,484.7	2,394.5	90.2	3.8%	2
Miami-Fort Lauderdale-Pompano Beach, FL MSA	8	2,442.2	2,413.3	28.9	1.2%	18
Boston-Cambridge-Quincy, MA-NH M NECTA	**9**	**2,433.1**	**2,403.8**	**29.3**	**1.2%**	**17**
Atlanta-Sandy Springs-Marietta, GA MSA	10	2,406.8	2,364.9	41.9	1.8%	11
San Francisco-Oakland-Fremont, CA MSA	11	2,032.1	1,991.8	40.3	2.0%	10
Detroit-Warren-Livonia, MI MSA	12	1,964.0	1,996.5	-32.5	-1.6%	31
Phoenix-Mesa-Scottsdale, AZ MSA	13	1,949.3	1,862.9	86.4	4.6%	1
Seattle-Tacoma-Bellevue, WA MSA	14	1,702.6	1,653.1	49.5	3.0%	6
Minneapolis-St. Paul-Bloomington, MN-WI MSA	15	1,521.0	1,506.1	14.9	1.0%	22
St. Louis, MO-IL MSA	16	1,339.6	1,324.3	15.3	1.2%	19
Tampa-St. Petersburg-Clearwater, FL MSA	17	1,317.3	1,295.6	21.7	1.7%	13
Baltimore-Towson, MD MSA	18	1,308.3	1,301.3	7.0	0.5%	26
San Diego-Carlsbad-San Marcos, CA MSA	19	1,302.7	1,296.3	6.4	0.5%	27
Riverside-San Bernardino-Ontario, CA MSA	20	1,300.6	1,260.5	40.1	3.2%	5
Denver-Aurora, CO MSA	21	1,208.1	1,187.7	20.4	1.7%	12
Pittsburgh, PA MSA	22	1,121.1	1,114.5	6.6	0.6%	25
Orlando-Kissimmee, FL MSA	23	1,092.2	1,062.6	29.6	2.8%	7
Cleveland-Elyria-Mentor, OH MSA	24	1,052.2	1,057.6	-5.4	-0.5%	30
Cincinnati-Middletown, OH-KY-IN MSA	25	1,021.8	1,020.9	0.9	0.1%	29
Portland-Vancouver-Beaverton, OR-WA MSA	26	1,016.9	996.1	20.8	2.1%	9
Kansas City, MO-KS MSA	27	988.9	975.7	13.2	1.4%	16
Las Vegas-Paradise, NV MSA	28	933.3	900.8	32.5	3.6%	3
Columbus, OH MSA	29	918.4	915.2	3.2	0.3%	28
Sacramento--Arden-Arcade--Roseville, CA MSA	30	905.4	891.7	13.7	1.5%	15
San Jose-Sunnyvale-Santa Clara, CA MSA	31	901.4	880.0	21.4	2.4%	8
Sub Total:		**63,781.5**	**62,830.6**	**950.9**	**1.5%**	
Rest Of U.S.		73,660.5	72,579.4	1,081.1	1.5%	
Total U.S.		**137,442.0**	**135,410.0**	**2,032.0**	**1.5%**	

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

If non-agricultural employment is separated by industry sector, Education and Health Services, Trade, Transportation and Utilities and Professional and Business Services lead in overall employees in Massachusetts as of February 2007 (Exhibit 3-6).

Exhibit 3-6: Non-Agricultural Employment by Industry Sector for Massachusetts and the U.S. (as of February 2007)

Industry Sector	February 2007 Non-Farm Employees (000) US	MA	Percent Change from Prior Year US	MA
Trade, Transportation, & Utilities	26,399.0	573.5	0.8%	0.9%
Government	22,173.0	433.5	1.4%	1.5%
Education & Health Services	18,136.0	614.5	2.7%	2.5%
Professional & Business Services	17,836.0	480.2	2.6%	2.4%
Manufacturing	14,119.0	297.4	-0.7%	-1.3%
Leisure & Hospitality	13,428.0	294.7	3.4%	0.1%
Financial Activities	8,451.0	223.2	1.8%	0.2%
Construction	7,657.0	139.2	-0.1%	-2.7%
Other Services	5,449.0	118.4	0.6%	0.0%
Information	3,083.0	88.0	0.8%	1.4%
Natural Resources & Mining	711.0	1.9	7.6%	0.0%
Total	**137,442.0**	**3,264.5**	**1.5%**	**1.0%**
Percent of Total			**MA More/Less than US**	
Trade, Transportation, & Utilities	19.2%	17.6%	-1.6%	
Government	16.1%	13.3%	-2.9%	
Education & Health Services	13.2%	18.8%	5.6%	
Professional & Business Services	13.0%	14.7%	1.7%	
Manufacturing	10.3%	9.1%	-1.2%	
Leisure & Hospitality	9.8%	9.0%	-0.7%	
Financial Activities	6.1%	6.8%	0.7%	
Construction	5.6%	4.3%	-1.3%	
Other Services	4.0%	3.6%	-0.3%	
Information	2.2%	2.7%	0.5%	
Natural Resources & Mining	0.5%	0.1%	-0.5%	
Total	**100.0%**	**100.0%**		

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

Since 1997, Education and Health Services along with Professional and Business Services have increased the most as a percentage of total jobs, while manufacturing has decreased the most (Exhibit 3-7).

Exhibit 3-7: Non-Agricultural Employment by Industry Sector for Massachusetts and the U.S. (February 1997 to February 2007)

	Non-Farm Employees (000)				Annual Pct Change			Net Change (000s)		
Industry Sector	**1997**	**2000**	**2006**	**2007**	**97-07**	**00-07**	**06-07**	**97-07**	**00-07**	**06-07**
Trade, Transportation, & Utilities	562.5	597.5	568.4	573.5	0.2%	-0.6%	0.9%	11.0	(24.0)	5.1
Government	410.0	433.1	427.0	433.5	0.6%	0.0%	1.5%	23.5	0.4	6.5
Education & Health Services	534.1	543.1	599.3	614.5	1.4%	1.8%	2.5%	80.4	71.4	15.2
Professional & Business Services	413.0	480.5	468.8	480.2	1.5%	0.0%	2.4%	67.2	(0.3)	11.4
Manufacturing	408.6	400.7	301.3	297.4	-3.1%	-4.2%	-1.3%	(111.2)	(103.3)	(3.9)
Leisure & Hospitality	255.8	272.3	294.4	294.7	1.4%	1.1%	0.1%	38.9	22.4	0.3
Financial Activities	210.2	226.2	222.8	223.2	0.6%	-0.2%	0.2%	13.0	(3.0)	0.4
Construction	98.6	123.6	143.1	139.2	3.5%	1.7%	-2.7%	40.6	15.6	(3.9)
Other Services	98.8	110.3	118.4	118.4	1.8%	1.0%	0.0%	19.6	8.1	-
Information	95.6	105.9	86.8	88.0	-0.8%	-2.6%	1.4%	(7.6)	(17.9)	1.2
Natural Resources & Mining	1.3	1.4	1.9	1.9	3.9%	4.5%	0.0%	0.6	0.5	-
Total	**3,088.5**	**3,294.6**	**3,232.2**	**3,264.5**	**0.6%**	**-0.1%**	**1.0%**	**176.0**	**(30.1)**	**32.3**
Percent of Total										
Trade, Transportation, & Utilities	18.2%	18.1%	17.6%	17.6%	-0.4%	-0.5%	0.0%			
Government	13.3%	13.1%	13.2%	13.3%	0.0%	0.1%	0.1%			
Education & Health Services	17.3%	16.5%	18.5%	18.8%	0.9%	1.9%	0.3%			
Professional & Business Services	13.4%	14.6%	14.5%	14.7%	1.0%	0.1%	0.2%			
Manufacturing	13.2%	12.2%	9.3%	9.1%	-3.7%	-4.0%	-0.2%			
Leisure & Hospitality	8.3%	8.3%	9.1%	9.0%	0.9%	1.3%	-0.1%			
Financial Activities	6.8%	6.9%	6.9%	6.8%	0.0%	-0.1%	-0.1%			
Construction	3.2%	3.8%	4.4%	4.3%	2.9%	1.8%	-0.2%			
Other Services	3.2%	3.3%	3.7%	3.6%	1.3%	1.2%	0.0%			
Information	3.1%	3.2%	2.7%	2.7%	-1.4%	-2.5%	0.0%			
Natural Resources & Mining	0.0%	0.0%	0.1%	0.1%	3.3%	4.6%	0.0%			
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**						

Source: U.S. Department Of Commerce, Bureau Of Labor Statistics (BLS)

As shown in Exhibit 3-8, nine of the top Fortune 500 companies are located in the Boston and surrounding area with 2005 revenues ranging from $6 to $23 billion. Another 12 companies are in the Fortune 500 to 1000 companies with 2005 revenues of $1.5 to $3 billion. The companies listed cover several different industry sectors such as insurance, financial, aerospace, retail, technology and pharmaceuticals.

Exhibit 3-8: Massachusetts Fortune 1000 Companies (as of YE 2005)

Fortune 1000 Rank				2005 Rev.
2006	2005	Company (Location)	Industry	($ Million)
92	83	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	$22,799
97	103	Raytheon (Waltham)	Aerospace and Defense	$21,894
102	111	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	$21,161
137	146	Staples (Framingham)	Specialty Retailers	$16,079
138	141	TJX (Framingham)	Specialty Retailers	$16,058
249	266	EMC (Hopkinton)	Computer Peripherals	$9,664
288	284	BJ's Whole Sale Club (Natick)	Specialty Retailers	$7,950
307	341	State Street Corp. (Boston)	Commercial Banks	$7,496
346	352	Boston Scientific (Natick)	Medical Products and Equipment	$6,283
574	575	NSTAR (Boston)	Utilities: Gas and Electric	$3,243
622	N/A	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	$2,968
643	713	Genzyme (Cambridge)	Pharmaceuticals	$2,735
658	680	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	$2,633
706	708	Biogen Idec (Cambridge)	Pharmaceuticals	$2,423
712	623	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	$2,389
772	775	Cabot (Boston)	Chemicals	$2,125
783	811	Iron Mountain (Boston)	Diversified Outsourcing	$2,078
837	817	Commerce Group (Webster)	Insurance: P & C (stock)	$1,884
884	799	Perini (Framingham)	Engineering, Construction	$1,734
897	855	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	$1,698
990	962	Boston Properties (Boston)	Real Estate	$1,447

Source: Fortune, April 2006

The top employers in Massachusetts are listed in Exhibit 3-9 below. Some of these employers are not headquartered in Massachusetts or the Boston Service Area.

Exhibit 3-9: The 25 Largest Private Employers in Massachusetts (June 2006)

Bank of America	Harvard University
Baystate Medical Center	Home Depot
Beth Isreal Deaconess Medical Center	Massachusetts Institute of Technology
Big Y Foods	Raytheon Company
Boston Medical Center Corporation	S&S Credit Company
Boston University	Shaw's Supermarkets
Brigham and Women's Hospital	Southcoast Hospitals Group
Children's Hospital	State Street Bank and Trust
Demoulas Super Markets	Umass Memorial Medical Center
EMC Corporation	United Parcel Service
Federated Retail Holdings	Verizon New England
Friendly Ice Cream	Wal-Mart
General Hospital Corporation	

Source: Massachusetts State Data Center (Mass SDC), January 2007

3.3 MAJOR INDUSTRY SECTORS IN THE GREATER BOSTON REGION

3.3.1 Higher Technology

There are several high profile industries which play a prominent role in the Boston Service Area's economy. Technology, biotechnology, health care services, financial services and higher education are some of the leading industries in the Boston region.

High technology industries encompass a number of economic activities that cut across traditional definitions of industrial sectors. They include research and development, manufacturing, distribution, management activities and consulting related to high technology products and services. Within the Boston Service Area, high technology industries are heavily involved in the development of computer software and related information technology activities, research and development of new technology products and procedures and the manufacture and/or distribution of computer and electronic related equipment. Exhibit 3-10 shows the largest technology companies and software developers in the Boston Service Area.

Exhibit 3-10: Largest Technology Employers in the Boston Service Area in 2006, Ranked by Employment in Massachusetts

Rank	Company	Location	2006 Revenues (Millions)	Mass Employees
1	EMC	Hopkinton	$9,664	8,000
2	IBM	Waltham	$91,134	6,000
3	Texas Instruments	Attleborough	$13,392	3,500
4	Analog Devices	Norwodd	$2,389	2,678
5	Hewlett-packard	Marlborough	$86,700	2,600
6	Meditech	Westwood	$305	2,500
7	Intel	Norwood	$38,826	2,350
8	Sun Mircrosystems	Burlington	$13,068	2,200
9	Teradyne	Boston	$1,100	1,800
10	Cisco	Boxborough	$24,800	1,500
11	Kronos	Chelmsford	$519	1,300
12	Brooks Automation	Chelmsford	$693	1,241
13	Thermo Fisher Scientific	Waltham	$2,633	1,200
14	Invensys Process Systems	Foxborough	$1,300	1,150
15	Varian Semiconductor Equipment	Gloucester	NA	1,100
16	Nortel Networks	Billerica	$10,523	1,000
17	Axcelis Technologies	Beverly	$372,500	1,000
18	International Data Group	Boston	$2,680	964
19	PTC	Needham	$744	947
20	Vicor	Andover	$179	927

Source: Book of Lists 2007

3.3.2 Biotechnology

Boston has been and remains one of the largest centers in the U.S. for the biotechnology industry, continuing to lead the industry within the region. The existence of a high technology work force and the medical and higher education facilities and personnel in the Boston Service Area make it one of the most desirable locations in the U.S. for the biotechnology industry. Unfortunately, for the top 20 companies in this industry, total employment in this sector for the region has decreased 20 percent in the last two years. The list of the top 20 employers in the State is presented in Exhibit 3-11.

Exhibit 3-11: Largest Biotechnology Firms in the Boston Service Area in 2006

Rank	Company	Focus	Mass Employees
1	Genzyme	Biotechnology	3,671
2	Wyeth	Pharmaceuticals	2,800
3	Millipore	Bioscience	1,425
4	Biogen	Biotechnology, nuerology, immunology	1,380
5	Millennium	Drug discovery and development	1,000
6	Vertex	Biotechnology	680
7	Sepracor	Pharmaceuticals	504
8	Alkermes	Biotechnology	450
9	Serono	Biotechnology	450
10	Abt Associates	Contract research	434
11	Cytyc	Diagnostics for cervical cancer	428
12	Shire Pharmaceuticals	Pharmaceuticals	390
13	ArQule	Oncology	265
14	Cubist Pharmaceuticals	Biotechnology	242
15	Acambis	Developing vaccines	230
16	Abiomed	Medical devices for a failing heart	200
17	BD Biosciences	Pharmaceuticals	196
18	ImmunoGen	Biotechnology	172
19	Dyax	Biopharmaceuticals and biotherapeutics	158
20	Idenix Pharmaceuticals	Pharmaceuticals	153

Source: Book of Lists 2007

3.3.3 Health Care Services

Boston has an excellent reputation as a leader in the health care arena given the well-known hospitals located in the Boston region. Also, the large number of health care services is a driver of other health care related industries. For example, a synergistic benefit of the research conducted at Boston's teaching hospitals is the substantial growth and economic development in the form of new jobs that are created in the biotechnology sector. As shown in Exhibit 3-12, there are many nationally recognized hospitals located in the Boston area.

Exhibit 3-12: Largest Hospitals in the Boston Area (based on 2005 Revenues)

Rank	Hospitals	2005 Revenues (Millions)	Full Time Employees
1	Massachusetts General Hospital	$1,322	20,477
2	Brigham and Women's Hospital	$1,064	13,000
3	Boston Medical Center	$918	4,338
4	Umass Memorial Medical Center	$796	5,880
5	Beth Israel Deaconess Medical Center	$741	5,636
6	Children's Hospital	$660	4,745
7	Lahey Clinic Medical Center	$486	3,953
8	Southcoast Hospitals Group	$481	3,913
9	Tufts/New England Medical Center	$420	5,605
10	Caritas St. Elizabeth's	$323	1,406
11	Cambridge Health Alliance	$321	3,254
12	North Shore Medical Center	$309	1,913
13	Cape Cod Hospital	$305	1,700
14	South Shore Hospital	$283	2,176
15	Dana-Farber Cancer Institute	$240	2,719
16	Northeast Hospital	$225	2,193
17	Hallmark Health System	$222	3,122
18	Newton-Wellesley Hospital	$219	1,076
19	Mount Auburn Hospital	$206	1,553
20	Winchester Hospital	$191	1,581

Source: Book of Lists 2007

Boston's medical institutions perform a wide variety of activities, including medical education, training and research, as well as the provision of medical services. Employment in the health care industry expanded rapidly in the late 1980s and early 1990s but has slowed considerably since 1995, as many area hospitals faced increasing cost pressures and mergers. However, even as other sectors have experienced job losses since 2000, health care employment has continued to grow, providing a counter-balance to other parts of the region's economy. The top 20 hospitals in the region employ over 90,000 full-time employees in 2006.

3.3.4 Financial Services

The Boston area has always had a reputation for a being a leader in the financial services industry. A substantial number of mutual fund companies, hedge funds, venture capital firms, wealth management and financial advisory companies are based in Boston (Exhibit 3-13). Companies such as Fidelity, Putnam, Wellington and MFS are among the largest mutual fund companies in the U.S.

Exhibit 3-13: Largest Mutual Fund Management Companies in the Boston Area, by Mutual Asset Size (2005)

Rank	Company	2005 Mutual Fund Assets (Millions)	Number of Funds
1	Fidelity	$1,046,100	379
2	Columbia Management	$215,315	105
3	Wellington Management	$152,272	20
4	Putnam Investments	$104,047	100
5	MFS Investment	$82,647	101
6	Grantham, Mayo, Van Otterloo	$58,825	73
7	State Street Global Advisors	$50,766	26
8	Pioneer Investment	$33,497	168
9	Eaton Vance	$29,860	102
10	MassMutual Life Insurance	$19,794	NA
11	John Hancock	$19,473	29
12	Loomis Sayles	$10,506	12
13	IXIS Asset Advisors	$7,152	22
14	Capital Growth Management	$3,614	4
15	Investors Bank & Trust	$3,083	15
16	Northeast Management	$1,431	2
17	Century Capital	$1,364	4
18	Standish Mellon Asset	$946	NA
19	Boston Partners	$643	10
20	Quantitative Advisors	$599	8

Source: Book of Lists 2007

The number of employees involved in financial services in the Boston Service Area more than doubled over the 1990-2000 period, growing to over 54,000 employees. However, there have been several mergers in the financial services industry impacting Boston companies. For example, Bank of Boston and Fleet merged in 1996 followed by Bank of America's acquisition of the new FleetBoston Financial Corp in 2004. Further, Manulife (insurance) bought John Hancock in 2004. Each of these mergers eliminated jobs in the Boston area, although it is difficult to quantify the exact numbers since many of these companies are private.

3.3.5 Higher Education

Boston is the home of some of the nation's and world's most prestigious colleges and universities. These institutions attract undergraduate and graduate students from across the country and around the world. There are over 60 colleges and universities in the Boston area with a total enrollment of 250,000 students (Exhibit 3-14).

Exhibit 3-14: Largest Colleges and Universities in the Boston Area, Ranked by Number of Students (2006)

Rank	Company	Full Time Enrollment	Part Time Enrollment	Total Enrollment
1	Boston University	25,396	5,561	30,957
2	U of Massachusetts (Amherst)	20,197	4,896	25,093
3	Northeastern University	17,611	4,993	22,604
4	Harvard University	18,591	1,253	19,844
5	Boston College	11,483	2,272	13,755
6	U of Massachusetts (Boston)	8,529	3,333	11,862
7	U of Massachusetts (Lowell)	6,403	4,263	10,666
8	Massachusetts Institute of Technology	9,879	327	10,206
9	Tufts University	8,814	924	9,738
10	Bridgewater State College	6,758	2,891	9,649
11	Salem State College	5,781	3,028	8,809
12	Lesley University	2,047	6,162	8,209
13	Middlesex Community College	3,466	4,624	8,090
14	Suffolk University	5,495	2,427	7,922
15	Bunker Hill Community College	2,384	5,455	7,839
16	U of Massachusetts (Dartmouth)	6,519	1,062	7,581
17	Bristol Community College	3,098	3,775	6,873
18	North Shore Community College	2,764	3,840	6,604
19	Northern Essex Community College	2,300	3,840	6,140
20	Holyoke Community College	3,076	3,189	6,265

Source: Book of Lists 2007

These institutions play an important role in the regional economy not only by attracting a large number of highly skilled workers to Boston, but also by spawning important scientific research and industry developments. For example, a significant portion of the growth in high technology, biotechnology, financial services and health care is a direct product of the graduates and research produced by the Boston area's universities. These well-known universities also provide a continuous supply of well-educated and capable workers for Boston's economy.

3.3.6 Tourism and Related Industries

Boston attracted 17.6 million visitors in 2005 (an increase of 5.5 percent over 2004) with 61 percent classified as leisure travelers and 39.0 percent as business travelers. In 2005, an estimated 5.0 percent of visitors were international travelers; however this does not include Canadian and Mexican visitors. The total direct and indirect economic and tax spending by visitors represented $9.8 billion in 2005, an increase of 24.0 percent compared to the prior year. In fact, the average visitor spends $160 per day (including hotel) and stays an average of 2.3 days. A convention delegate, however, spends significantly more, with an average daily spend of $368 for an

average visit of 3.3 days, demonstrating the importance of revenue derived from conventions.[8]

Employment related to direct visitor expenditures was estimated at 125,300 jobs in 2005 with an annual payroll of $3.2 billion. This economic impact can be seen in Exhibit 3-15 which summarizes the economic impact of visitors to Massachusetts from 2000-2004.

Exhibit 3-15: Economic Impact of Travel to Massachusetts (2000 to 2004)

	Expenditures		Payroll		Employment	
Year	($ Millions)	% Chg	($ Millions)	% Chg	Employees	% Chg.
2004	$12,407	10.8%	$3,245	3.4%	125,300	0.4%
2003	$11,199	-0.5%	$3,137	0.4%	124,800	-1.5%
2002	$11,258	-5.3%	$3,125	-3.6%	126,700	-4.1%
2001	$11,883	-11.0%	$3,241	-1.8%	132,100	-2.4%
2000	$13,352	7.8%	$3,299	N/A	135,300	N/A

Source: Massachusetts Office of Travel & Tourism

3.4 BOSTON AREA SOCIOECONOMIC TRENDS

3.4.1 Population

Massachusetts is a heavily populated state with only Rhode Island and New Jersey having a greater population density[9]. Over the last twenty-five years, Boston's population has grown at roughly the same rate as Massachusetts and New England but slower than the U.S. as a whole (see Exhibit 3-16). Boston experienced its largest growth spurt between 1995-2000, coinciding with the city's increased employment and economic expansion during that time frame. In the last six years, Boston's population growth rate has grown at the same rate as that of Massachusetts, trailing both the New England and U.S. average growth rates. The 2006 population statistics are estimated based upon NPA Data Services Inc.[10], a Washington-based economic research, forecasting and data services firm that specializes in developing long-term historical and projected economic and demographic information derived from U.S. Census data.

[8] Greater Boston Convention & Visitors Bureau, Boston Tourism Statistics, April 2007.
[9] Massachusetts State Data Center (Mass SDC, January 2007).
[10] NPA Data Services Inc. is an established economic research firm which is relied on by the Office of Management and Budget, the Federal Reserve Bank, and other state and municipal government planners.

Exhibit 3-16: Regional and National Population Growth (1980 – 2006E)

	Historical				Estimated
	1980	1990	1995	2000	2006
Population (in 000s)					
Boston Area	4,793.0	5,004.1	5,105.7	5,298.5	5,353.4
Massachusetts	5,748.4	6,022.6	6,141.5	6,361.7	6,436.5
New England	12,377.3	13,229.5	13,472.6	13,951.8	14,323.5
Total US	227,226.4	249,624.3	266,279.7	282,208.5	299,514.1
Boston NECMA Population as a Percent of:					
% of Massachusets	83.4%	83.1%	83.1%	83.3%	83.2%
% of New England	38.7%	37.8%	37.9%	38.0%	37.4%
% of US Total	2.1%	2.0%	1.9%	1.9%	1.8%
Average Annual Growth	**26 Years '80-'06**	**10 Years '90-''00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	0.4%	0.6%	0.4%	0.7%	0.2%
Massachusetts	0.4%	0.5%	0.4%	0.7%	0.2%
New England	0.6%	0.5%	0.4%	0.7%	0.4%
Total US	1.1%	1.2%	1.3%	1.2%	1.0%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates.

Source: NPA DATA SERVICES, INC.

The forecast population for Boston Service Area through 2020 implies an average annual growth rate of 0.2 percent for the next 14 years, which is comparable to Massachusetts, and slightly lower than the growth rates projected for New England and the U.S. as a whole (see Exhibit 3-17). The U.S. growth rate is projected at one percent annually through 2020. Since the Boston Service Area is a mature, high density population region, it stands to reason that the growth rate for the region would be slower than the national average.

Exhibit 3-17: Regional and National Population Growth (2000 – 2020)

	Historical 2000	Estimated 2006	Forecasted 2010	2020
Population (in 000s)				
Boston Area	5,298.5	5,353.4	5,392.4	5,536.8
Massachusetts	6,361.7	6,436.5	6,493.3	6,687.3
New England	13,951.8	14,323.5	14,516.5	15,086.1
Total US	282,208.5	299,514.1	311,647.7	344,608.8
Boston NECMA Population as a Percent of:				
% of Massachusets	83.3%	83.2%	83.0%	82.8%
% of New England	38.0%	37.4%	37.1%	36.7%
% of US Total	1.9%	1.8%	1.7%	1.6%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	0.2%	0.2%	0.3%	0.2%
Massachusetts	0.2%	0.2%	0.3%	0.2%
New England	0.4%	0.3%	0.4%	0.4%
Total US	1.0%	1.0%	1.0%	1.0%

Note: Boston area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

3.4.2 Personal Income and Per Capita Income

Per capita income levels have consistently been higher in Massachusetts when compared to the New England region and the rest of the U.S. As shown in Exhibit 3-18, between 1980-2000, real personal income in the Boston Service Area increased at the average rate of 3.8 percent per year and real per capita income rose at 3.1 percent per year. These growth rates exceeded the corresponding national growth rates of 3.1 percent and 2.0 percent, respectively, and were also above the New England region's growth rates. Massachusetts had higher than average per capita income in 1982-1988 and then declined from 1989-1991. Levels again increased in Massachusetts from 1994-1997 at a rate faster than the national average. In 2000, Massachusetts reached its highest per capita income growth in 16 years. From 2000 to 2003 real per capita income declined both in Massachusetts and in the U.S., although the Massachusetts per capita income levels declined at a steeper rate, implying that the recession impacted Massachusetts to a greater extent than the rest of the U.S. Despite this, Massachusetts was able to maintain a higher average per capita income than the national average. And in 2004 and 2005 Massachusetts per capita income grew faster than in the U.S. In 2006, Boston's per capita income is estimated at $43,392, which is higher than in Massachusetts, New England and the

U.S. In fact, in 2006, Boston's per capita income is projected to be 32.0 percent higher than the U.S. average.

Exhibit 3-18: Regional and National Income Growth (1980 – 2006E)

	Historical				Estimated
	1980	1990	1995	2000	2006
Total Income					
Boston Area	$100,729	$148,855	$159,220	$209,252	$232,295
Massachusetts	$118,741	$174,482	$185,675	$240,847	$269,019
New England	$256,336	$377,919	$397,769	$502,670	$575,179
Total US	$4,479,993	$6,098,763	$6,761,254	$8,361,363	$9,870,560
% of Massachusets	84.8%	85.3%	85.8%	86.9%	86.3%
% of New England	39.3%	39.4%	40.0%	41.6%	40.4%
% of US Total	2.2%	2.4%	2.4%	2.5%	2.4%
Average Annual Growth	**20 Years '80-'00**	**10 Years '90-'00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	3.7%	3.5%	1.4%	5.6%	1.8%
Massachusetts	3.6%	3.3%	1.3%	5.3%	1.9%
New England	3.4%	2.9%	1.0%	4.8%	2.3%
Total US	3.2%	3.2%	2.1%	4.3%	2.8%
Per Capita Income					
Boston Area	$21,016	$29,747	$31,185	$39,493	$43,392
Massachusetts	$20,656	$28,971	$30,233	$37,859	$41,796
New England	$20,710	$28,566	$29,524	$36,029	$40,156
Total US	$19,716	$24,432	$25,392	$29,628	$32,955
% of Massachusets	101.7%	102.7%	103.1%	104.3%	103.8%
% of New England	101.5%	104.1%	105.6%	109.6%	108.1%
% of US Total	106.6%	121.8%	122.8%	133.3%	131.7%
Average Annual Growth	**26 Years '80-'06**	**10 Years '90-'00**	**5 Years '90-'95**	**5 Years '95-'00**	**6 Years '00-'06**
Boston Area	2.8%	2.9%	0.9%	4.8%	1.6%
Massachusetts	2.7%	2.7%	0.9%	4.6%	1.7%
New England	2.6%	2.3%	0.7%	4.1%	1.8%
Total US	2.0%	1.9%	0.8%	3.1%	1.8%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

The growth rate of per capita income for the Boston Service Area is projected to be 1.8 percent, on average, each year from 2010 to 2020, resulting in an average of 2.0 percent growth each year from 2000 to 2020 (including years of higher growth previously experienced). This growth is on par with Massachusetts and New England and slightly above the U.S. The projected growth rates imply that the Boston Service Area economy will continue to grow with income increasing over the next fourteen years at a faster pace than the last six years (Exhibit 3-19).

Exhibit 3-19: Regional and National Income Growth (2000 - 2020)

	Historical	Estimated	Forecasted	
	2000	2006	2010	2020
Total Income				
Boston Area	$209,252	$232,295	$266,860	$327,106
Massachusetts	$240,847	$269,019	$308,957	$378,511
New England	$502,670	$575,179	$662,748	$816,485
Total US	$8,361,363	$9,870,560	$11,575,076	$14,907,226
% of Massachusets	86.9%	86.3%	86.4%	86.4%
% of New England	41.6%	40.4%	40.3%	40.1%
% of US Total	2.5%	2.4%	2.3%	2.2%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	1.8%	3.5%	2.1%	2.3%
Massachusetts	1.9%	3.5%	2.1%	2.3%
New England	2.3%	3.6%	2.1%	2.5%
Total US	2.8%	4.1%	2.6%	2.9%
Per Capita Income				
Boston Area	$39,493	$43,392	$49,489	$59,079
Massachusetts	$37,859	$41,796	$47,581	$56,601
New England	$36,029	$40,156	$45,655	$54,122
Total US	$29,628	$32,955	$37,142	$43,258
% of Massachusets	104.3%	103.8%	104.0%	104.4%
% of New England	109.6%	108.1%	108.4%	109.2%
% of US Total	133.3%	131.7%	133.2%	136.6%
Average Annual Growth	**6 Years '00-'06**	**4 Years '06-'10**	**10 Years '10-'20**	**20 Years '00-'20**
Boston Area	1.6%	3.3%	1.8%	2.0%
Massachusetts	1.7%	3.3%	1.8%	2.0%
New England	1.8%	3.3%	1.7%	2.1%
Total US	1.8%	3.0%	1.5%	1.9%

Note: the Boston Service Area includes Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties; 2006 numbers are estimates

Source: NPA DATA SERVICES, INC.

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4 AIRPORT PASSENGER AND AIR SERVICE TRENDS

4.1 INTRODUCTION

Over the past 35 years, passenger traffic at Boston Logan Airport has more than tripled, which is the result of strong economic and population growth in the Boston Service Area described in Chapter 3.

Logan has endured periods of fluctuating passenger levels during its long history. Particularly after 9/11 and for the years immediately following, Logan experienced a major drop in both passengers and operations, similar to other airports around the country. However, the Airport has recovered, showing consistent growth and a return to constant passenger growth in recent years. In recent years, Logan has also seen a surge in low cost carrier service, predominantly due to jetBlue's rapid increase in service since the carrier initiated service at Logan in 2004, as well as AirTran's continued growth at the Airport.

Logan has also witnessed a dramatic shift in aircraft type over the past decade as airlines have introduced regional jet aircraft into this market, and replaced most of the turboprop aircraft activity. Logan's role as a regional hub to New England and upstate New York markets has lessened as carriers have employed regional jet service from these points direct to airline hubs. This shift in Logan's service pattern, plus increases in carrier load factors has resulted in an increase in the number of passengers per operation, particularly over the past two years. While the number of passengers per operation averaged 55 through most of the 1990s, the average has jumped to over 70 passengers per aircraft departure in 2006.

This section reviews recent and long-term passenger, aircraft activity, and airline service trends at Logan.

4.2 AIRLINE PASSENGERS

4.2.1 Total Passengers

Logan experienced passenger growth for the last three years, reaching 27.6 million passengers in calendar year 2006. The historical enplaned and deplaned passenger traffic from CY 1970 to CY 2006 is shown in Exhibit 4-1. After a significant drop in passengers during 2001 – 2003 due to 9/11, Logan has experienced a rebound in passengers since 2004. Excluding General Aviation passengers, Logan handled 26.0 million passengers in 2004, 26.9 million in 2005 and reached 27.6 million in 2006. Logan has fully recovered from the events of 9/11 and the economic downturn which followed. Passenger traffic at Logan in 2006 is slightly ahead of what was achieved in 2000. Economic recovery within the region, reinstatement of service, expansion of low cost carrier service and reduction in airfares have all been contributing factors in the traffic growth over the last several years.

As presented in Exhibit 4-1, Logan achieved positive traffic growth between 1970 and 2000, although the rate of passenger growth slowed over time, reflecting market maturation. Whereas Logan's passenger traffic increased at an average annual rate of 4.5 percent during the 1970s, this growth slowed to 4.2 percent per annum in the 1980s and to 2.0 percent during the 1990s. In the last six years, the average annual growth rate was flat reflecting the drop and then recovery of passenger traffic after the events of 9/11.

Exhibit 4-1 also shows that Logan's total passenger traffic has increased each decade, but the Airport has experienced periodic declines, largely in response to changes in the business cycle and short-term service disruptions. In the past, negative changes in passenger traffic ranged from 3.0 to 4.0 percent, experienced for periods of roughly 2 to 3 years, representing the span of a particular business cycle. However, the magnitude of the traffic decline at Logan after 9/11 was unprecedented, and reflected a combination of a down economic cycle that dampened business travel demand, the unusual circumstances of 9/11, and substantial capacity reductions as airlines attempted to stabilize their business models. At the same time, Logan's performance post-9/11 was not unique as airports across the country experienced similar downturns in traffic.

Exhibit 4-1: Historical Airline Passenger Traffic at Boston Logan International Airport (CY 1970 – CY 2006)

	Enplaned plus Deplaned Passengers			
Year	Domestic Large Jet	Domestic Regional	International	Total
1970	8,202,821	273,398	916,406	9,392,625
1980	12,095,854	467,903	2,158,606	14,722,363
1990	17,968,410	1,486,713	3,358,944	22,814,067
1995	18,596,719	2,035,266	3,475,753	24,107,738
2000	20,923,802	2,176,843	4,513,192	27,613,837
2001	17,807,384	2,262,655	4,301,250	24,371,289
2002	16,589,407	2,136,015	3,882,257	22,607,679
2003	16,790,349	2,099,730	3,815,987	22,706,066
2004	19,247,042	2,583,252	4,201,638	26,031,932
2005	20,060,081	2,637,396	4,237,105	26,934,582
2006	20,839,226	2,692,863	4,049,595	27,581,684
Average Annual Growth				
1970-80	4.0%	5.5%	8.9%	4.6%
1980-90	4.0%	12.3%	4.5%	4.5%
1990-00	1.5%	3.9%	3.0%	1.9%
1995-00	2.4%	1.4%	5.4%	2.8%
2000-06	-0.1%	3.6%	-1.8%	0.0%
Percent Change Over Prior Year				
2001	-14.9%	3.9%	-4.7%	-11.7%
2002	-6.8%	-5.6%	-9.7%	-7.2%
2003	1.2%	-1.7%	-1.7%	0.4%
2004	14.6%	23.0%	10.1%	14.6%
2005	4.2%	2.1%	0.8%	3.5%
2006	3.9%	2.1%	-4.4%	2.4%

Source: Massport

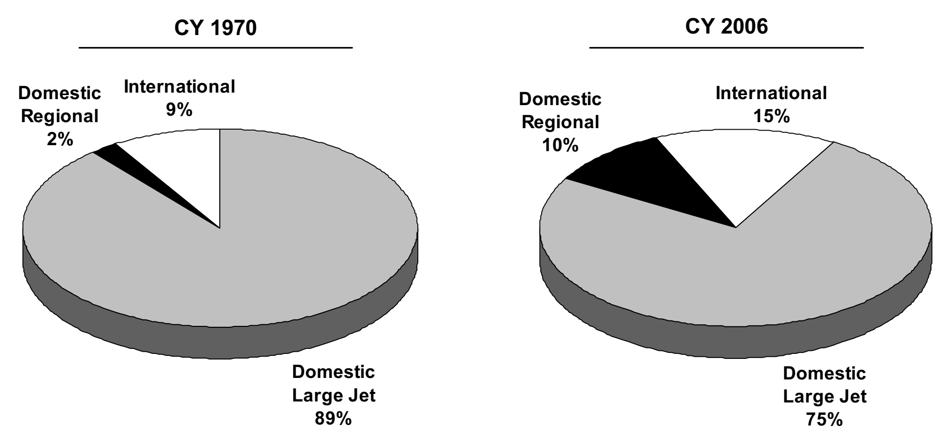
4.2.2 Market Segments at Logan Airport

Historically, Logan has supported three major market segments: domestic large jet services, domestic regional carrier services and international services. The domestic large jet and international segments have principally supported local O&D passengers, while regional carrier services have historically served to feed passengers from small New England and upstate New York markets to Logan Airport for connecting services to other destinations. However, since 2001, as regional carriers

have accepted large deliveries of new regional jets[11] ("RJs"), mainline airlines have increasingly deployed regional jets at Logan to serve medium-haul, low-density O&D markets.

For CY 2006, the domestic regional jet segment accounted for 10.0 percent of total airport passengers, up from 2 percent in 1970. Over that same period, large jet market share dropped to 76 percent, down from nearly 90 percent in CY 1970 as shown in Exhibit 4-2. The share of Airport passengers traveling to/from international markets increased over time from 9.0 percent in CY 1970 to 15.0 percent in CY 2006. Historic growth trends in each of these segments are discussed in the following sections.

Exhibit 4-2: Logan Passenger Traffic by Major Market Segment (CY 1970 & CY 2006)



Note: Excludes General Aviation Passengers

Source: Massport

[11] Regional jets are small jet powered aircraft with 100 or fewer seats. The US regional airline fleet consists of regional jets with 32 to 100 seats. Regional jets operate at higher speeds and can fly longer stage lengths than turboprops. The operating range for a typical regional jet is 800 to 1,000 miles, compared to 400 miles for a turboprop.

Domestic Large Jet

Logan's domestic large jet[12] passenger traffic reached a peak of 21.0 million in CY 2000, before falling to 16.6 million during CY 2002. This segment stabilized in CY 2003 but has rebounded dramatically since then. Domestic large jet passenger traffic increased by 14.6 percent during CY 2004, 4.2 percent during CY 2005 and another 3.9 percent between 2005-2006. Traffic volume for CY 2006 in this segment has reached 20.8 million passengers, almost reaching Logan's high of 21.0 million passengers from the peak year of CY 2000.

Historically, domestic mainline passenger traffic at Logan has grown more slowly than both regional carrier and international traffic. Domestic jet traffic increased at annual rates of 4.0 percent during the 1970s and 4.0 percent during the 1980s. Exceptionally strong growth of 8.7 percent per year occurred between 1982 and 1987, when the regional and national economies were expanding and low-fare carriers such as People Express were operating at Logan Airport.

Logan's domestic large jet passenger traffic reached a then peak level of 19.4 million in FY 1987 and then declined each year through FY 1992 falling to 16.6 million. Domestic passenger growth resumed in FY 1993 and fully recovered, reaching 19.4 million again in FY 1997. A combination of regional and industry-wide events were largely responsible for the domestic large jet traffic declines at Logan Airport during this period. First, several airlines serving Logan were affected by the wave of industry consolidation that occurred: US Airways and Piedmont Airlines merged; Continental Airlines' parent company, Texas Air, acquired People Express and New York Air; and both Eastern Airlines and Pan Am entered bankruptcy and ceased operations. The industry consolidation led to higher airfares, which depressed traffic growth. At the same time, the 1990-91 economic recession, which was felt more severely and lasted longer in New England than in the rest of the U.S., coincided with the Gulf War and further weakened air travel demand.

Logan's domestic large jet traffic resumed its growth as the economy recovered and increased every year from FY 1993 to FY 2000. In addition to the strength of the local and national economies in the mid to late 1990s, Logan's mainline traffic growth was also fueled by competition among mainline carriers for Boston market share. During the mid to late 1990s, American, Delta and United each sought to increase their presence in the Boston market and challenged US Airways' dominance

[12] Domestic large jet refers to certificated air carriers that operate narrowbody and/or widebody aircraft, generally with more than 100 seats.

by expanding their Logan services, especially in long-haul markets. By 2000, these carriers offered hourly flights to their main connecting hubs, as well as nonstop service to West Coast destinations and/or expanded service to short-haul business markets. The increasing competition among the mainline carriers contributed to growth in domestic jet passenger traffic at Logan.

After the events of 9/11, the market experienced a significant shock. Airlines reduced services and restructured their operations to solidify their base and determine how best to grow going forward. Over the past two years, growth in the domestic large jet segment has come mainly from expansion of the LCCs at the Airport. The rise of the LCCs and the implication of this trend were analyzed in Chapter 2 of this report.

4.2.3 Domestic Regional

Logan accommodated 2.7 million domestic regional carrier[13] passengers in CY 2006, the largest level of regional carrier activity at the Airport ever. CY 2005 was also a strong year for domestic regional traffic at Logan with 2.6 million passengers, representing a 2.1% increase from CY 2005 to CY 2006. Domestic regional passenger traffic has historically been the fastest growing segment of Logan's passenger traffic since the 1970s. The trends at Logan over the past several years mirror an industry-wide shift by domestic airlines to transfer flying to regional carrier affiliates, using regional jets to replace mainline jets on routes that the mainline carriers could not operate profitably. Airlines are becoming more sophisticated in using the most appropriate aircraft for their routes. Today Therefore, they are shifting to smaller aircraft (regional jets) which they can better fill with passengers than a large mainline aircraft.

From CY 1970 to CY 2000, domestic regional passenger traffic at Logan grew at an average annual rate of 7.2 percent. During the 1970s regional traffic growth averaged 5.5 percent increasing to 12.3 percent annual growth during the 1980s. During the 1990s, regional passenger growth slowed to 3.9 percent per year, but still remained stronger than domestic large jet growth, which averaged 1.5 percent over the same period.

The significant long-term growth in regional carrier passenger traffic at Logan is attributable to several factors. First, passenger demand in the short-haul Northeast O&D markets increased substantially during the 1980s as the New England economy

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[13] Regional carrier includes airlines that operate turboprop or regional jet aircraft.

prospered. Second, as mainline carriers developed affiliate and code share relationships with regional carriers to gain market share in an increasingly competitive industry, it became more efficient for airlines to serve passengers from low-density Northern New England markets on a connecting basis through Logan Airport. Because of the lack of a single dominant carrier at Logan Airport, there was a proliferation of such code share agreements between major airlines and northeast regional carriers serving Logan during the late 1980s. (Fewer regional carriers typically serve airports that are dominated by a single hub carrier.)

More recently, many airlines have transferred a number of marginal jet routes to their regional carrier partners. While initially marginal routes were transferred to regional carriers and operated with turboprops, the transfer of routes accelerated with the widespread introduction of regional jets, which operate at higher speeds, serve longer distances and tend to be preferred by passengers over turboprops. At Logan, as described, mainline carriers also began to use regional jets provided by regional carrier affiliates to expand into new markets while some carriers have used regional jets to gain a foothold in markets already served by competitors. An example of this is American Eagle's service in the Boston-New York LaGuardia shuttle market with 8 daily RJ roundtrips to compete against the US Airways Shuttle and Delta Shuttle. Regional jets allow mainline carriers to expand into new markets or smaller markets with reduced risk. A regional jet is able to provide service to smaller markets and achieve two objectives: providing previous nonexistent nonstop service to a large hub airport and secondly, feeding passengers into a mainline carriers' larger hub of service.

4.2.4 International

Logan's international passenger traffic, including travel to and from Canada, reached an all-time high of 4.5 million passengers in CY 2000. During the following three years international passenger traffic declined by almost 20 percent and remained flat until 2003. International traffic declined steadily during the two years after 9/11, from 4.3 million in CY 2001 to 3.9 million in CY 2002 and 3.8 million in CY 2003, reflecting instability in the global environment (including events such as the war in Iraq, SARS, and global terrorism). In CY 2004, international traffic rebounded to 4.2 million passengers, an increase of 10.1 percent. CY 2005 saw a slight increase of 0.8 percent for international passengers; however, there was a downturn of 4.4 percent in CY 2006 with passenger numbers declining to 4.1 million. The majority of the decrease in CY 2006 occurred in services between Logan and Canadian destinations.

Logan Airport, with its strategic location in the Northeast U.S., is a natural gateway for travel between the United States and Europe. During the 1970s, when new jet aircraft technologies expanded capabilities for transoceanic flights, total international traffic at Logan grew at an average annual rate of nearly 10 percent. Growth moderated to 4.5 percent per year over the next decade. During the early to mid 1980s international traffic growth was spurred primarily by increased demand rather than significant service expansion. In 1988, Northwest Airlines established a transatlantic hub at Logan Airport by adding new service to several major European destinations including Amsterdam and Frankfurt. In that year the Airport realized a net gain of more than 370,000 international passengers, which represents a 10 percent increase.

International passenger traffic declined in 1991 because of service disruptions related to the Gulf War and weak demand resulting from terrorist threats and the shrinking economy. After CY 1991, international traffic increased to a then record 3.7 million passengers in CY 1994. At the end of 1994, after forming a code-sharing alliance with KLM Royal Dutch Airlines, Northwest reduced its international services from Boston, which negatively affected Logan's international traffic levels in 1995 and 1996. During these years Logan also lost scheduled air services operated by Air France and TAP Air Portugal due to financial difficulties at both airlines.

Northwest's decision to reduce transatlantic services at Logan had only a short-term impact on Logan's international traffic levels. Several airlines, including American, British Airways, and US Airways, added new international services replacing most of the discontinued Northwest services.

By CY 1998, Logan's international traffic had fully recovered from the Northwest withdrawal, reaching 4.0 million passengers in that year. From CY 1998 to CY 2000, international traffic grew by 7 to 8 percent per year as U.S. carriers and their foreign flag alliance partners expanded services at Logan in order to gain market share. Over this period, several carriers including Air France, Swiss Air (now SWISS International) and Lufthansa added a second daily departure to their respective European connecting hubs. Today over 24 domestic and international carriers provide service from Logan to international locations.

Boston is currently the 11th largest U.S. gateway for international air travel based on YE September 2006 (Exhibit 4-3). The past ten years have shown a relatively steady growth in passengers. Logan averaged 2.1 percent annual growth between 1995 and YE September 2006, which was lower than the national average of 3.2 percent annual growth. Logan is also the second largest U.S. gateway airport (behind Honolulu) that

is not a major hub for a U.S. carrier. This standing is impressive for Logan because the Airport is not dependent on one carrier for international service, like many of the other U.S. gateways listed on the chart below.

Exhibit 4-3: Top U.S. Gateways for International Traffic (1996 to YE Sept 06)

2006 Passengers Ran	US Gateway		Total Passengers 1995	2000	YE Sep 06	2006 Pct. Share	Avg. Annual Growth 90-95	95-00	00-06	90-06
1	New York	Hub	21,248,800	28,553,170	30,002,341	19.6%	1.2%	6.1%	0.8%	2.6%
2	Los Angeles	Hub	12,994,089	17,141,000	16,653,813	10.9%	7.6%	5.7%	-0.5%	3.9%
3	Miami	Hub	14,182,368	16,629,165	14,648,658	9.6%	7.5%	3.2%	-2.1%	2.5%
4	Chicago	Hub	6,586,260	10,185,201	11,506,931	7.5%	6.4%	9.1%	2.1%	5.6%
5	Atlanta	Hub	3,165,349	6,113,827	8,149,720	5.3%	11.5%	14.1%	4.9%	9.7%
6	San Francisco	Hub	5,605,021	7,860,756	8,047,261	5.3%	7.1%	7.0%	0.4%	4.5%
7	Houston	Hub	2,733,888	5,358,349	7,019,537	4.6%	4.5%	14.4%	4.6%	7.5%
8	Washington	Hub	2,756,920	3,895,917	5,413,520	3.5%	16.9%	7.2%	5.6%	9.5%
9	Dallas/Fort Worth	Hub	3,339,445	4,812,052	5,173,785	3.4%	4.5%	7.6%	1.2%	4.2%
10	Honolulu		6,004,172	5,150,635	4,158,885	2.7%	0.9%	-3.0%	-3.5%	-2.0%
11	Boston		3,044,502	4,057,619	3,806,540	2.5%	0.1%	5.9%	-1.1%	1.4%
12	Detroit	Hub	2,771,956	3,929,353	3,685,403	2.4%	13.7%	7.2%	-1.1%	6.0%
13	Philadelphia	Hub	1,118,948	2,553,962	3,536,940	2.3%	7.6%	17.9%	5.6%	10.0%
14	Guam		2,181,824	2,840,667	2,606,199	1.7%	10.0%	5.4%	-1.4%	4.2%
15	Minneapolis	Hub	1,368,271	2,875,171	2,447,241	1.6%	12.6%	16.0%	-2.7%	7.6%
16	Fort Lauderdale		909,220	1,174,940	2,375,592	1.6%	-0.3%	5.3%	12.4%	6.1%
17	Seattle		1,529,627	2,202,568	2,307,402	1.5%	-2.8%	7.6%	0.8%	1.7%
18	Orlando		2,009,682	2,353,796	2,083,379	1.4%	8.6%	3.2%	-2.0%	2.9%
19	San Juan		2,224,568	2,499,899	2,055,673	1.3%	1.9%	2.4%	-3.2%	0.1%
20	Charlotte	Hub	407,968	952,218	2,024,903	1.3%	14.0%	18.5%	13.4%	15.2%
	Sub Total: Top 20		**96,182,878**	**131,140,265**	**137,703,723**	**90.2%**	**5.1%**	**6.4%**	**0.8%**	**3.9%**
	Other		9,392,821	12,467,096	15,033,043	9.8%	-1.0%	5.8%	3.2%	2.7%
	Total US		**105,575,699**	**143,607,361**	**152,736,766**	**100.0%**	**4.5%**	**6.3%**	**1.0%**	**3.7%**

Source: T100 Database via Database Products

Looking at Logan's international activity from a different perspective, the Airport is ranked 13th in terms of international seats provided, based upon year ending September 2006 (Exhibit 4-4 below). Coincidentally, 13% of Logan's total seats provided in 2006 were international and 14% of its total passengers were international. Given that the Airport ranks 11th in terms of international passenger enplanements, this exceeds its "fair share" of international traffic, highlighting its strength as an international gateway.

Exhibit 4-4: Top 20 Airports Ranked by International Seats (CY 2006)

	Seats				Passengers			
	2004		2006		2004		2006	
Airport	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l	Pct Domestic	Pct Int'l
11 Boston	**87%**	**13%**	**87%**	**13%**	**85%**	**15%**	**86%**	**14%**
1 Miami	49%	51%	50%	50%	51%	49%	53%	47%
2 New York J F Kennedy	54%	46%	53%	47%	54%	46%	55%	45%
3 Los Angeles	74%	26%	72%	28%	73%	27%	72%	28%
4 New York Newark	75%	25%	72%	28%	72%	28%	73%	27%
5 San Juan	76%	24%	76%	24%	81%	19%	81%	19%
6 San Francisco	79%	21%	76%	24%	77%	23%	75%	25%
7 Washington Dulles	81%	19%	77%	23%	79%	21%	77%	23%
8 Honolulu	75%	25%	80%	20%	77%	23%	79%	21%
9 Houston Intctl	82%	18%	81%	19%	82%	18%	83%	17%
10 Chicago O'Hare	87%	13%	84%	16%	86%	14%	85%	15%
11 Boston	87%	13%	87%	13%	85%	15%	86%	14%
12 Fort Lauderdale	91%	9%	87%	13%	92%	8%	89%	11%
13 Philadelphia	88%	12%	89%	11%	87%	13%	89%	11%
14 Atlanta	92%	8%	90%	10%	92%	8%	90%	10%
15 Detroit	91%	9%	90%	10%	90%	10%	90%	10%
16 Dallas/Fort Worth	92%	8%	91%	9%	92%	8%	91%	9%
17 Seattle/Tacoma	92%	8%	92%	8%	92%	8%	92%	8%
18 Charlotte	94%	6%	93%	7%	93%	7%	93%	7%
19 Minneapolis	94%	6%	93%	7%	93%	7%	93%	7%
20 Orlando	94%	6%	94%	6%	94%	6%	94%	6%

Note: International 2006 Passengers based on year end September 2006
Source: Official Airline Guide and T100 database

For 2007, the following carriers have announced or published services which will increase international activity at Logan and benefit the New England community.

- Iberia – announced year-round service commencing in May with five weekly flights to Madrid
- flyglobespan – announced seasonal service commencing in May with daily flights to Glasgow and twice weekly flights to Ireland West Knock
- Finnair – announced seasonal service commencing in June with thrice weekly flights to Helsinki with a stop in Stockholm
- Lufthansa – announced incremental seasonal service commencing in May with phased-in double daily flights to Frankfurt
- Yangtze River Express – started thrice weekly air cargo service between Boston and Shanghai in March

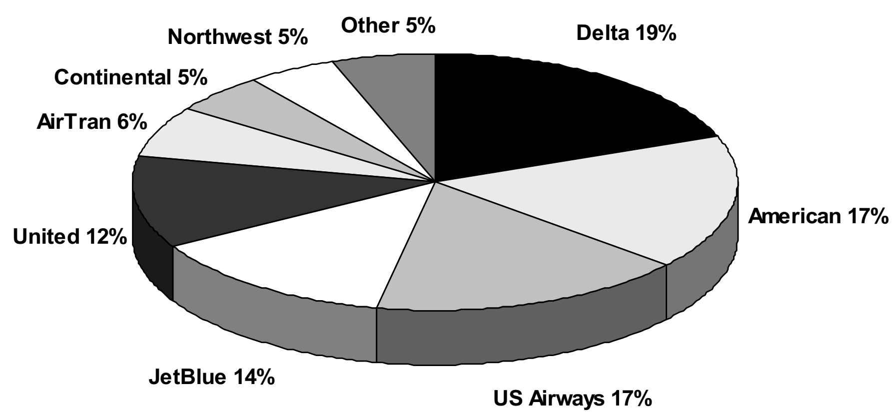
Another recent development that may bring added air service to Boston beginning in March of 2008, is the announcement that the U.S. and the EU have reached an agreement on Open Skies Legislation, permitting carriers to fly between any point in

the EU and any point in the U.S. This new legislation may create significantly expanded international operations at the Airport, though details are being finalized at this point. The new agreement is pending governing body approvals.

4.2.5 Airline Domestic and International Passenger Shares

Logan passenger traffic continues to be spread across multiple carriers. In CY 2006, Delta (including Delta, the Delta Shuttle, Comair and the Delta Connection) ranked number one in passenger market share with 19.0 percent (as shown in Exhibit 4-5). American Airlines (including American Eagle) ranked number two with 17.0 percent of the market. US Airways/America West (including US Airways Shuttle and US Airways Express), JetBlue and United followed, resulting in the top five carriers making up over 75.0 percent of the total market share at Logan. Interestingly, four of the top five carriers have remained the same since CY 2004 with JetBlue being the exception. JetBlue started service at Logan in 2004 and since then has grown to be the fourth largest domestic carrier.

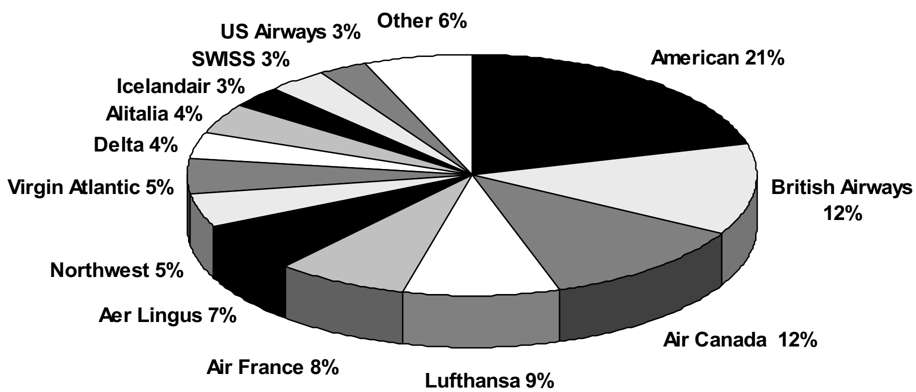
Exhibit 4-5: Airline Market Share of Logan Domestic Passengers (CY 2006)



Note: Regional airline passengers are grouped with their mainline carrier (except Chautaqua);
Excludes General Aviation passengers
Source: Massport

For international passengers, over 24 domestic and international airlines currently serve Logan. American leads with 21 percent of the market. British Airways closely followed by Air Canada (including Air Canada Jazz) each has 12 percent market share, making them the two largest foreign flag carriers operating at Logan. Lufthansa and Air France round out the top 5 carriers in terms of market share of international passengers. The breakdown of market share for international passengers can be seen in Exhibit 4-6.

Exhibit 4-6: Airline Market Share for International Passengers (CY 2006)



Note: : Regional airline passengers are grouped with their mainline carrier (except Chautaqua) ;
Exludes General Aviation passengers
Source: Massport

4.3 AIRCRAFT OPERATIONS

There were approximately 374,000 commercial operations (excluding General Aviation) at Logan during CY 2006 (Exhibit 4-7). The operations have remained stable since CY 2004 with little change for the last three years. Commercial aircraft movements reached a peak of 475,000 in CY 1998 when a number of airlines serving Boston expanded service, but operations fell steadily in subsequent years. Compared to Logan's operations peak, total commercial operations have declined 21.0 percent in CY 2006 compared to CY 1998. The majority of the decline occurred with domestic regional aircraft and international aircraft. Interestingly, both of these categories had an increase in passenger traffic during the same time which supports the finding that aircraft size has been increasing and load factors have been rising.

Exhibit 4-7: Historical Aircraft Operations at Boston Logan Airport (1970 to 2006)

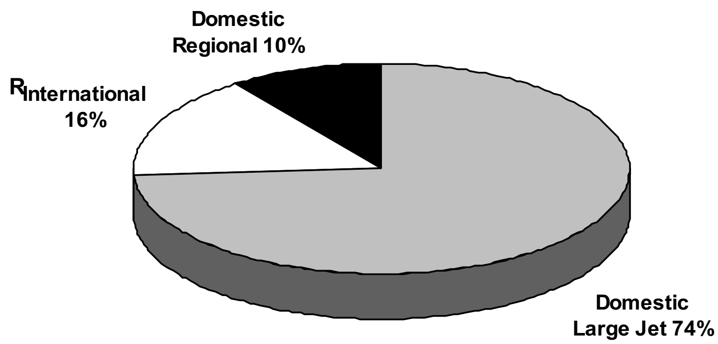
	Aircraft Takeoffs and Landings			
Calendar Year	Domestic Large Jet	Domestic Regional	International	Total
1970	189,192	37,800	17,599	244,591
1980	178,686	60,623	18,858	258,167
1990	223,955	144,179	31,458	399,592
1995	216,662	185,006	40758	442,426
2000	248,555	159,025	45,183	452,763
2001	223,778	164,643	45,965	434,386
2002	195,203	131,879	39,401	366,483
2003	173,671	132,778	38,195	344,644
2004	204,987	128,972	40,063	374,022
2005	204,760	132,169	38,697	375,626
2006	211,420	126,378	36,286	374,084
1970-80	-0.6%	4.8%	0.7%	0.5%
1980-90	2.3%	9.1%	5.3%	4.5%
1990-00	1.0%	1.0%	3.7%	1.3%
1995-00	-0.7%	5.1%	5.3%	2.1%
2000-06	-2.7%	-3.8%	-3.6%	-3.1%
Percent Change Over Prior Year				
2001	-10.0%	3.5%	1.7%	-4.1%
2002	-12.8%	-19.9%	-14.3%	-15.6%
2003	-11.0%	0.7%	-3.1%	-6.0%
2004	18.0%	-2.9%	4.9%	8.5%
2005	-0.1%	2.5%	-3.4%	0.4%
2006	3.3%	-4.4%	-6.2%	-0.4%

Note: Operations include arrivals and departures; operations exclude General Aviation activity
International operations includes scheduled and charter operations for U.S. certified, U.S. regional and foreign carriers
Source: Massport

Between 1970 and 2000, Logan's domestic regional carrier aircraft operations grew the fastest of all traffic segments, averaging increases of 4.9 percent annually. Over the same period, international aircraft operations grew at an average annual rate of 3.2 percent, while domestic large jet operations increased by 0.9 percent per year. Over the last 36 years domestic regional carrier operations grew at an average of 3.4 percent annually, followed by international aircraft operations growth of 2.0 percent annually while domestic large jet operations grew slowly with 0.3 percent average annual growth.

Regional carriers (operating RJs and turboprops) accounted for approximately 35.0 percent of passenger airline operations in CY 2006 (Exhibit 4-8), but only 10.0 percent of airport passengers.

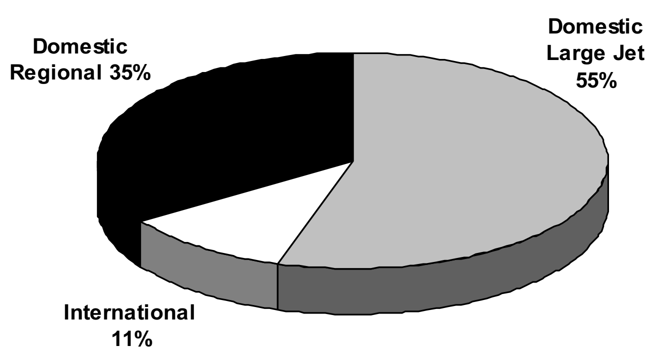
Exhibit 4-8: Aircraft Share of Operations at Logan (CY 2006)



Source: Massport

In the early 1990s, regional carriers accounted for as much as 43.0 percent of operations, but since then their share of operations has declined as regional carriers have moved away from turboprops (an average of 19 seats) and toward larger regional jets (an average of 57 seats) at Logan, allowing them to carry more passengers with fewer operations (Exhibit 4-9)

Exhibit 4-9: Aircraft Share of Passengers at Logan (CY2006)

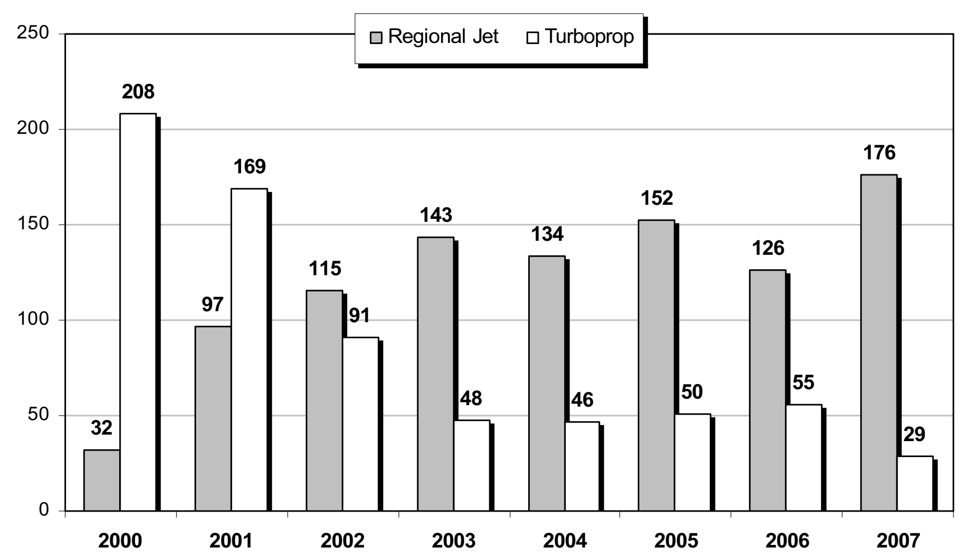


Source: Massport

Over the past five years, total regional carrier operations at Logan have declined as regional carriers have retired turboprops at a faster rate than they have added regional jets. As a result, the fleet mix of regional carriers mix at Logan has shifted dramatically from a fleet dominated by turboprops to one now dominated by RJs.

Since CY 2000, daily regional jet operations at Logan have increased by over 400 percent, from 32 operations daily in 2000 to 176 daily operations in CY 2006 as show in Exhibit 4-10. Over the same period, turboprop operations fell by 86.0 percent, from 208 to 29 daily operations. Following 9/11, regional carriers accelerated the retirement of their turboprop fleets. As a result, total regional carrier domestic operations were down by 24 percent in 2006 compared to 2000, according to the scheduled data from the OAG.

Exhibit 4-10: Daily Operations at Logan by Aircraft Class - Regional Jets and Turboprops (February 2000 – February 2007)



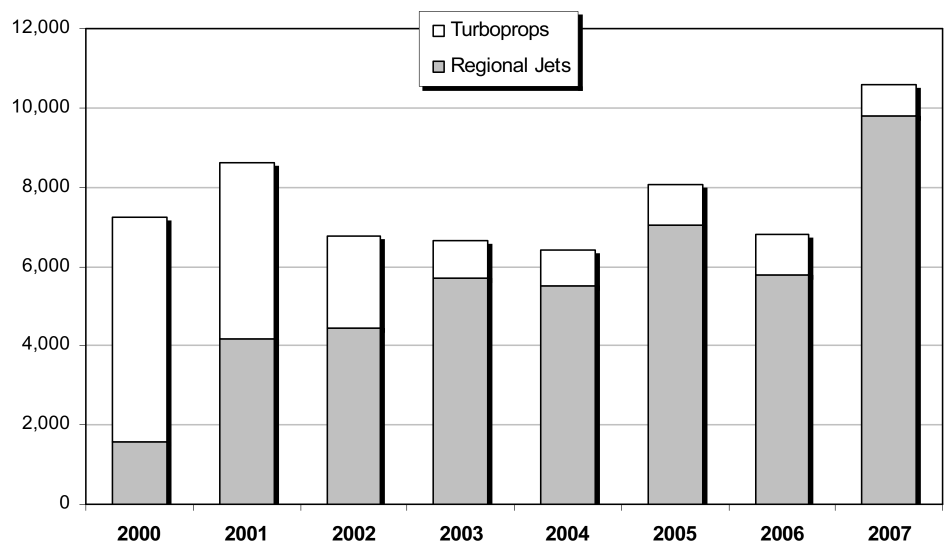
Source: Official Airline Guide

As shown in the exhibit above, the mix between regional jets and turboprops has completely changed. In 2000, regional jets comprised 13.0 percent of the total regional and turboprop daily activity; however, by 2006, regional jets had expanded to 69.0 percent of the total regional market share.

Initially, the growth of RJ operations at Logan translated into increased regional airline seat capacity. However, carriers accelerated turboprop retirements starting at the end of 2001. As a result, regional carrier seat capacity at Logan was below its

2001 high between 2002 to 2005, as shown in Exhibit 4-11. However, in the latest period (February 2007) the seat capacity has proven to be a different story as the combined daily seats for regional jets and turboprops surpassed the number of seats during the previous high in 2001. Turboprops made up 15.0 percent of the seats in February 2006 of regional flying and accounted for 8.0 percent of the seats in February 2007, demonstrating the rapid decline from 2000 levels when turboprops flew 78.0 percent of the seats in the regional market.

Exhibit 4-11: Regional Airline Daily Seat Capacity at Logan by Aircraft Class (February 2000 to February 2007)



Note: 2000 to 2006 includes August daily seats, 2007 analysis includes April daily seats
Source: Official Airline Guide

One of the most noticeable trends at Logan over the recent past is the increase in the average number of passengers per aircraft operation. As illustrated in Exhibit 4-12, the average number of passengers per commercial airline operation ("PPO") ranged from 55 to 61 seats for the 20-year period between 1980 and 2000. Between 1995 and 2000, the average PPO was approximately 56. However, this average has changed dramatically since 2000. In CY 2001, airlines operating at Logan averaged 56 PPO compared with a 2006 average of over 73 PPO. While the domestic regional carriers continued their decade-long increase in aircraft size, from almost 14 PPO in CY 2000 to over 21 PPO in CY 2006, domestic large jet carriers also increased from 84 PPO to 99 PPO over the same time period. This trend reflects the emphasis of carriers on increasing load factors and more effectively assigning appropriate aircraft to routes.

Exhibit 4-12: Trend in Average Passengers per Operation at Logan

Calendar Year	Average Passengers per Operation: Domestic Large Jet	Domestic Regional	International	Total
1970	43.4	7.2	52.1	38.4
1980	67.7	7.7	114.5	57.0
1990	80.2	10.3	106.8	57.1
1995	85.8	11.0	85.3	54.5
2000	84.2	13.7	99.9	61.0
2001	79.6	13.7	93.6	56.1
2002	85.0	16.2	98.5	61.7
2003	96.7	15.8	99.9	65.9
2004	93.9	20.0	104.9	69.6
2005	98.0	20.0	109.5	71.7
2006	98.6	21.3	111.6	73.7
1970-80	4.6%	0.7%	8.2%	4.0%
1980-90	1.7%	2.9%	-0.7%	0.0%
1990-00	0.5%	2.9%	-0.7%	0.7%
1995-00	-0.4%	4.5%	3.2%	2.3%
2000-06	2.7%	7.7%	1.9%	3.2%
Percent Change Over Prior Year				
2001	-5.5%	0.4%	-6.3%	-8.0%
2002	6.8%	17.9%	5.3%	10.0%
2003	13.8%	-2.4%	1.4%	6.8%
2004	-2.9%	26.7%	5.0%	5.6%
2005	4.3%	-0.4%	4.4%	3.0%
2006	0.6%	6.8%	1.9%	2.8%

Source: Massport

4.4 SCHEDULED COMMERCIAL AIRLINE SERVICE

4.4.1 Domestic Mainline Service

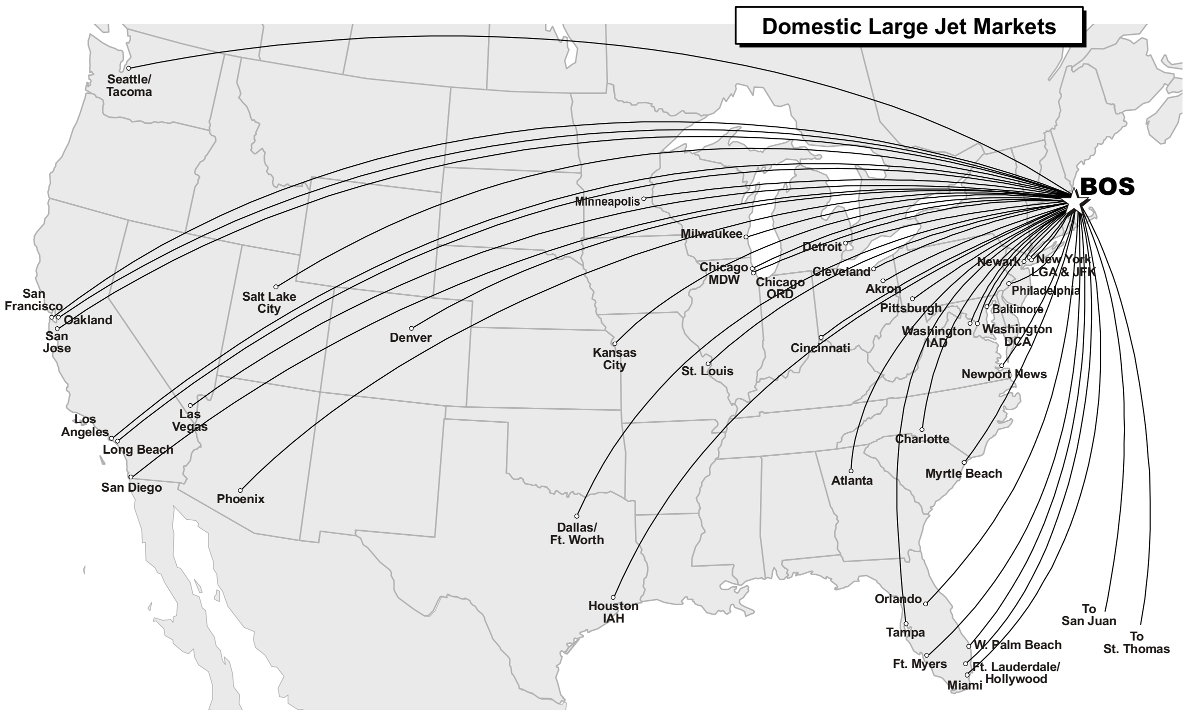
Ten major U.S. airlines provide scheduled domestic service to Logan as of April 2007. All major carriers with revenues over $1 billion serve Logan except for Southwest Airlines. The complete list of mainline carriers currently serving Logan is included in Exhibit 4-13 and Logan's current nonstop jet service is illustrated in Exhibit 4-14.

Exhibit 4-13: U.S. Mainline Carriers Serving Logan (as of April 2007)

AirTran Airways	Midwest
Alaska Airlines	Northwest
American Airlines	Spirit
Continental Airlines	United
Delta Airlines	US Airways (America West and US Airways)
JetBlue	

Source: Official Airline Guide

Exhibit 4-14: Domestic Nonstop Large Jet Markets Served from Boston Logan (as of April 2007)



Source: Official Airline Guide

Following 9/11 and the subsequent airline financial distress, Logan experienced deep reductions in scheduled service. Service reached a low point in February 2003, when mainline carriers served Logan with 234 daily departures to domestic destinations. This represented a 29.0 percent reduction from February 2001, when the Airport was served with 329 daily domestic jet departures. These service reductions cut across most markets including connecting hubs, leisure destinations, and trans-continental flights. Since 2003, carriers have steadily increased service at Boston.

Domestic large jet and regional jet carriers increased service by 13 departures over 2003 and 2004. Another 30 departures were added in 2005 compared to the previous year. In 2006 there was a slight decline of almost 4.0 percent of daily departures for large and regional jets; however, in February 2007 there was a 7.0 percent increase bringing the total daily departures for domestic large jets and regional jets to 409 surpassing February 2001 departures slightly. Exhibit 4-15 below shows the scheduled airline service changes at Logan over the past three years.

After cutting turboprop frequencies by almost half in 2002, the segment remained relatively static in 2003 and 2004. There was a slight increase in turboprop departures in 2005 to 47 daily departures and then again in 2006 to 54 daily, however that number dropped to 2003 levels in February 2007 with only 44 daily departures.

The mix of carriers serving Logan has also changed in the past few years, as shown in Exhibit 4-15. American Trans Air, Independence Air and Delta's Song no longer serve Logan whereas JetBlue and Spirit have entered Logan in the last few years, with JetBlue very quickly becoming a leading carrier at the Airport.

Exhibit 4-15: Scheduled Airline Service at Logan (February 2005 – February 2007)

Carrier	Nonstop Daily Departures Feb 05	Feb 06	Feb 07	Net Change 04-05	05-06	06-07
Mainline Carriers						
AirTran Airways	17	26	27	2	9	1
Alaska	1	1	1	0	0	0
America West	6	5	6	(1)	(1)	1
American	43	35	34	(6)	(8)	(1)
American Trans Air	3	0	0	0	(3)	0
Continental	18	18	16	1	0	(2)
Delta	36	29	46	1	(7)	17
Delta Song	19	18	0	3	(1)	(18)
JetBlue	20	44	29	9	24	(15)
Midwest Airlines	4	6	5	0	2	(1)
Northwest	13	11	11	(1)	(2)	0
Spirit	0	0	3	0	0	3
United	26	29	29	(2)	3	0
US Airways	60	54	52	5	(6)	(2)
Subtotal	**266**	**276**	**259**	**11**	**10**	**(17)**
Regional Carriers (RJs)						
America West Express	0	0	0	0	0	0
American Eagle	59	46	41	(1)	(13)	(5)
Continental Express	1	2	2	(1)	1	0
Delta Connection /1	37	36	51	0	(1)	15
JetBlue	0	0	27	0	0	27
Independence Air	11	0	0	11	(11)	0
Northwest Airlink	7	5	6	7	(2)	1
United Express	5	7	6	2	2	(1)
US Airways Express /2	16	12	17	1	(4)	5
Subtotal	**136**	**108**	**150**	**19**	**(28)**	**42**
Jet and Regional Jet Departures	**402**	**384**	**409**	**30**	**(18)**	**25**
Regional Carriers (Turboprops)						
Cape Air	17	18	15	2	1	(3)
Continental Express	8	14	7	(1)	6	(7)
US Airways Express /2	17	18	22	2	1	4
Other	5	4	0	1	(1)	(4)
Subtotal	**47**	**54**	**44**	**4**	**7**	**(10)**
Total Daily Departures	**449**	**438**	**453**	**34**	**(11)**	**15**

/1 Low-fare business unit of Delta Air Lines

/2 Several carriers (Air Wisconsin, Chautauqua, Colgan, Mesa, MidAtlantic, Piedmont, Public Charters, PSA, Republic and Transtates) are, or have operated as, US Airways Express

Source: OAG Schedule Tapes

4.4.2 Regional Service

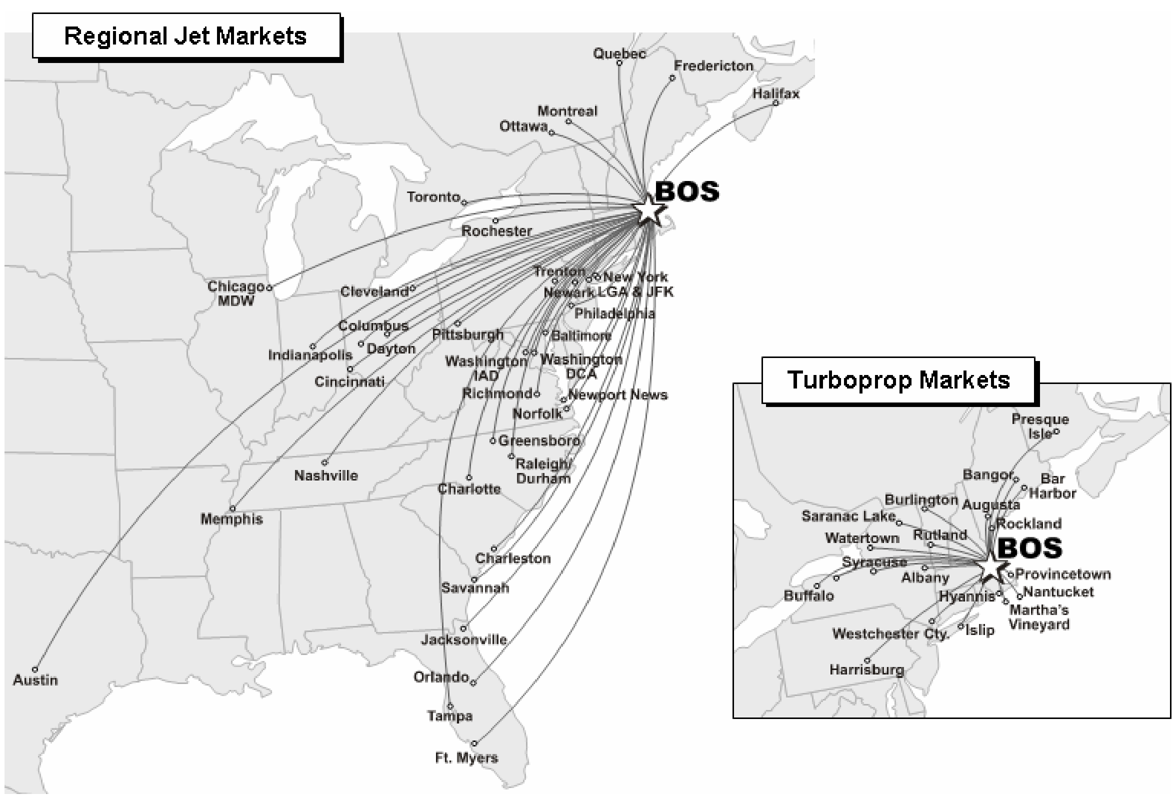
As of February 2007, 13 regional carriers provide scheduled passenger service at Logan Airport (see Exhibit 4-16). With the exception of Cape Air, the regional carriers serving Logan are either wholly owned by a mainline carrier or operate under joint marketing agreements with mainline carriers. A few regional airlines, such as Chautauqua and Mesa, operate for more than one mainline carrier. The regional service provided by these 13 carriers is shown in Exhibit 4-17.

Exhibit 4-16: Regional Airlines (and Affiliates) Operating at Logan (2007)

Air Canada Jazz (Air Canada)	Continental Express
Air Wisconsin (US Airways Express)	Mesa (America West Express and United)
American Eagle	Piedmont (US Airways Express)
Cape Air	Pinnacle (Northwest Airlink)
Chautauqua (Delta Connection and US Airways Express)	PSA (US Airways Express)
Colgan (US Airways Express)	Republic (US Airways Express)
Comair (Delta Connection)	

Source: Official Airline Guide

Exhibit 4-17: Regional Carrier Nonstop Markets Served from Logan (2007)



Source: Official Airline Guide

Regional carriers began increasing RJ service and reducing turboprop service at Logan prior to September 11. Schedules for February 2001 show a 100.0 percent increase in RJ departures and a 21.0 percent decline in turboprop departures compared to the prior year. As previously discussed, regional carriers have been increasing their regional jet fleets and retiring their turboprop fleets. While RJs had become an important component of mainline carrier growth strategies before this decade, they have taken on added importance in the last few years given the operating environment.

At Logan, mainline carriers have used the RJs of their regional carrier partners for:

- Competitive entry into short-haul, high-density markets,
- New nonstop service to medium-density markets beyond turboprop range (approximately 400 miles), and
- Turboprop replacement.

JetBlue has positioned itself as a major competitor at Logan, supported by the airline's lease of 11 gates in Logan's Terminal C that Delta vacated when it moved to the new Terminal A in March 2005. JetBlue continues to grow at Logan, doubling its service between 2005 and 2006. In the first four months of 2007, the carrier also increased another 50 percent versus the first four months in 2006. Also, JetBlue is utilizing Embraer regional jets on its high-frequency Boston-New York JFK service as well as for thin and developing routes.

4.4.3 International Service

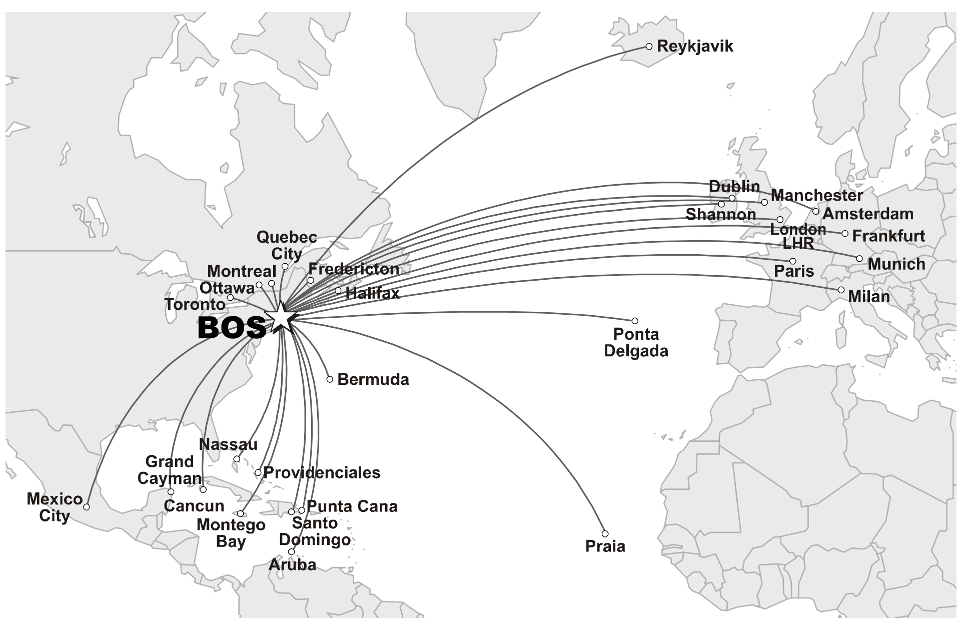
Twenty-four U.S. and foreign flag airlines provided scheduled jet service from Logan Airport to international destinations in April 2007. Exhibit 4-18 lists these carriers. The three major global airline alliance groups – oneworld, SkyTeam, and Star Alliance – are all represented at Logan Airport by more than one carrier in each alliance. Exhibit 4-19 shows the current international markets served.

Exhibit 4-18: U.S. and Foreign Carriers Providing International Service at Logan International Airport (2007)

US Flag	Foreign Flag
American (oneworld)	Aer Lingus
Delta (SkyTeam)	Aeromexico (SkyTeam)
JetBlue	Air Canada (Star Alliance)
Northwest (SkyTeam)	Air France (SkyTeam)
US Airways (Star Alliance)	Air Jamaica
	Alitalia (SkyTeam)
	British Airways (oneworld)
	Cayman Airlines
	Finnair (oneworld)
	flyglobespan
	Iberia
	Icelandair
	KLM (SkyTeam)
	LACSA Airlines
	Lufthansa (Star Alliance)
	SATA International Airlines
	SWISS (Star Alliance)
	TACA International
	TACV Cabo Verde Airlines
	Virgin Atlantic

Source: Official Airline Guide

Exhibit 4-19: Nonstop International Service from Logan (April 2007)



Source: Official Airline Guide

Exhibit 4-20 below details international carrier service changes at Boston Logan from 2005 to 2007. In the last two years, several new foreign flag carriers have begun service to Logan, including Cayman Airlines, Finnair, LACSA, SATA, and TACV Cabo Verde. US Airways launched new international service in 2004 with direct service from Boston to four Caribbean destinations including Aruba, Cancun, Montego Bay, and Nassau. In May 2005, American began direct service between Boston and Shannon, Ireland while Finnair commenced service in the summer of 2005 with thrice weekly service to Helsinki, via the Swedish airport of Skavsta (Stockholm). Finnair's service is the first direct link between Boston and Sweden or Finland in Logan's history.

JetBlue has also begun international service, offering seasonal flights to Nassau in the Bahamas and also offering seasonal service starting in May 2007 to Bermuda. JetBlue will launch service to Aruba in June 2007. Cayman Airlines began service with one weekly departure to Grand Cayman. Iberia recently announced new service between Logan and Madrid. Iberia will offer five weekly fights starting in May 2007. In addition, European carrier flyglobespan announced service to two new locations from Boston Logan. The discount European airline will offer twice weekly service to West Airport in Knock, County Mayo (Ireland). The carrier will also begin service between Logan and Glasgow (Scotland) in May 2007. Northwest will add an additional daily flight from Boston to Amsterdam in July 2007 increasing their service to twice daily.

Air Canada has shifted service from large jet service to higher frequencies of regional service. The airline had 29 large jet weekly departures in February 2005 and 23 weekly regional jet departures. However, as of February 2007, the carrier eliminated all large jet service at Logan and increased regional jet service to 32 weekly departures. In addition, Air Canada Jazz has increased their flights dramatically from 22 weekly departures in February 2005 to 76 weekly departures in February 2007. Despite Air Canada shifting their mainline large jet service to regional jets over the last couple of years, the carrier has shown its commitment to Logan with more than 108 scheduled weekly departures as of February 2007.

Exhibit 4-20: Scheduled International Service at Logan International Airport (February 2003 to February 2007)

Carrier	Nonstop Weekly Departures Feb 03	Feb 05	Feb 07	Net Change 03-05	05-07	03-07
Jet Carriers						
Aer Lingus	7	7	7	0	0	0
Aeromexico	0	7	1	7	(6)	1
Air Canada	42	29	0	(13)	(29)	(42)
Air France	12	12	7	0	(5)	(5)
Air Jamaica	6	5	0	(1)	(5)	(6)
Alitalia	7	7	7	0	0	0
American	24	29	24	5	(5)	0
British Airways	21	21	21	0	0	0
Cayman Airlines	0	0	1	0	1	1
Delta	7	7	7	0	0	0
Icelandair	5	7	7	2	0	2
JetBlue	0	0	4	0	4	4
LACSA	3	1	0	(2)	(1)	(3)
Lufthansa	11	7	7	(4)	0	(4)
Northwest	7	7	7	0	0	0
Sata Internacional	0	0	2	0	2	2
Swissair/SWISS	5	7	7	2	0	2
TACA	0	2	0	2	(2)	0
TACV-Transportes Aereos de Cabo	0	1	1	1	0	1
US Airways	0	13	8	13	(5)	8
Virgin Atlantic	7	7	7	0	0	0
Subtotal	**164**	**176**	**125**	**12**	**(51)**	**(39)**
Regional Carriers (RJs)						
Air Canada	50	23	32	(27)	9	(18)
Air Canada Jazz	0	22	76	22	54	76
American Eagle	38	33	28	(5)	(5)	(10)
Delta Connection	49	35	28	(14)	(7)	(21)
JetBlue	0	0	3	0	3	3
Subtotal	**137**	**113**	**167**	**(24)**	**54**	**30**
Jet and Regional Jet Departures	**301**	**289**	**292**	**(12)**	**3**	**(9)**
Regional Carriers (Turboprops)						
Air Canada Jazz	26	28	1	2	(27)	(25)
Subtotal	**26**	**28**	**1**	**2**	**(27)**	**(25)**
Total Weekly Departures	**327**	**317**	**293**	**(10)**	**(24)**	**(34)**

Source: Official Airline Guide

Logan's international services are heavily oriented toward European destinations, making it the 6th busiest U.S. gateway for transatlantic air travel (Exhibit 4-21). Also, 72.0 percent of Logan's international traffic is between Boston and transatlantic locations.

Exhibit 4-21: Top U.S. Gateways for Transatlantic Passengers (YE3Q 2006)

2006 Psgr. Rank	US Gateway	Total Psgrs. YE Sep 06	2006 Pct. Share
1	New York	17,959,336	33.7%
2	Chicago	5,418,817	10.2%
3	Washington	3,658,258	6.9%
4	Atlanta	3,544,943	6.7%
5	Los Angeles	3,226,933	6.1%
6	**Boston**	**2,731,034**	**5.1%**
7	Miami	2,278,383	4.3%
8	San Francisco	2,088,542	3.9%
9	Philadelphia	2,021,694	3.8%
10	Detroit	1,600,082	3.0%
11	Houston	1,365,665	2.6%
12	Orlando	1,098,999	2.1%
13	Sanford	1,049,658	2.0%
14	Dallas/Fort Worth	951,229	1.8%
15	Minneapolis	715,438	1.3%
16	Cincinnati	588,434	1.1%
17	Seattle	523,593	1.0%
18	Denver	414,746	0.8%
19	Charlotte	404,475	0.8%
20	Las Vegas	391,891	0.7%
	Sub Total: Top 20	**52,032,150**	**97.6%**
	Other	1,272,336	2.4%
	Total US	**53,304,486**	**100.0%**

Source: T100 Database via Database Products

4.4.4 Domestic Origin and Destination Patterns at Logan

Service at Logan extends to 73 nonstop destinations within the United States. The top 30 destinations (as shown in Exhibit 4-22) accounted for over 75.0 percent of Boston's O&D traffic in the year ending 3rd quarter 2006.

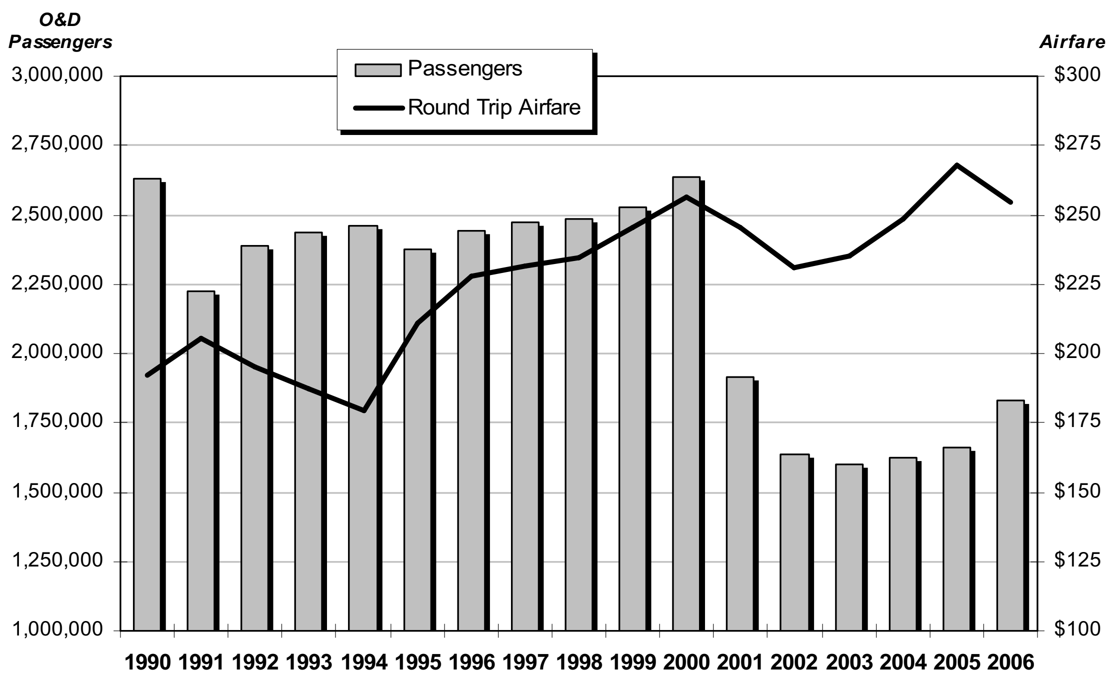
Exhibit 4-22: Top Domestic O&D Passenger Markets

Rank	City		Nonstop Miles	O&D Psgrs	Percent of Total	Sched Daily Departures
1	New York	NYC	200	1,829,000	9.0%	71
2	Washington	WAS	413	1,233,710	6.0%	45
3	Orlando	ORL	1,121	978,300	4.8%	15
4	Fort Lauderdale	FLL	1,237	790,430	3.9%	16
5	Chicago	CHI	867	776,550	3.8%	28
6	Atlanta	ATL	946	775,690	3.8%	18
7	Los Angeles	LAX	2,611	684,520	3.4%	9
8	San Francisco	SFO	2,704	679,330	3.3%	8
9	Philadelphia	PHL	280	664,780	3.3%	18
10	Tampa	TPA	1,185	542,120	2.7%	9
11	Baltimore	BWI	370	505,650	2.5%	16
12	Las Vegas	LAS	2,381	489,350	2.4%	7
13	Fort Myers	FMY	1,249	485,650	2.4%	8
14	Denver	DEN	1,754	471,950	2.3%	10
15	Dallas/Fort Worth	DFW	1,562	451,950	2.2%	11
16	West Palm Beach	PBI	1,197	425,850	2.1%	6
17	Minneapolis	MSP	1,124	355,810	1.7%	6
18	Seattle/Tacoma	SEA	2,496	335,450	1.6%	7
19	Miami	MIA	1,258	331,220	1.6%	6
20	Charlotte	CLT	727	278,820	1.4%	11
21	San Juan	SJU	1,674	266,030	1.3%	6
22	Houston Hobby	HOU	1,597	264,940	1.3%	6
23	Detroit	DTW	632	259,870	1.3%	9
24	Phoenix	PHX	2,300	257,870	1.3%	7
25	Oakland	OAK	2,693	255,420	1.3%	1
26	San Diego	SAN	2,588	244,980	1.2%	2
27	Long Beach	LGB	2,602	231,820	1.1%	2
28	Raleigh/Durham	RDU	612	231,580	1.1%	13
29	Pittsburgh	PIT	496	181,200	0.9%	6
30	San Jose	SJC	2,689	162,870	0.8%	3
	Subtotal Top 30			**15,442,710**	**75.6%**	
	All Other			4,971,960	24.4%	
	Total			**20,414,670**	**100.0%**	

Source: O&D Database, Database Products

The New York market, which includes traffic to LaGuardia, JFK and Newark, has traditionally been Boston's largest O&D market. The New York/Newark market comprised 1.8 million passengers in the year ending September 2006, representing 9.0 percent of Logan's total O&D market (Exhibit 4-23). The Boston-New York traffic is driven by the shuttle service offered by Delta and US Airways to LaGuardia Airport and JetBlue's service to JFK. Continental also provides multiple daily flights to Newark International Airport while American Eagle provides service to JFK. Since 2001, passenger traffic between Boston and the New York area has remained between 1.6 and 1.8 million passengers.

Exhibit 4-23: Average Passengers and Fare between Boston - New York (1990 – YE3Q2006)



Source: O&D Database, via database products

The New York market reached a high of 2.6 million passengers in 2000. A combination of factors negatively impacted the Boston-New York air passenger market, including Amtrak's introduction of high-speed Acela Express service in December 2000[14]. After a few operational challenges during its startup, the Acela

[14] In addition to the Acela Express service that is operated with new high-speed trains, Amtrak also provides Acela Regional service with conventional train sets.

service appears to be back on track and continuing to attract potential air passengers. Delays and long security lines after 9/11, which added travel time and discouraged short-haul air travel and the general decline in business travel (Boston-New York is a strongly business oriented market) have also negatively impacted passenger traffic on the shuttle. However, JetBlue's increased service to New York, which started in the 4th Q 2005 has grown rapidly each quarter. The New York market increased by 200,000 passengers as of year ending 3rd quarter 2006. JetBlue's entry into the market appears to have stimulated passenger traffic but also has drawn traffic away from Delta and US Airways traffic as well.

The average round trip fare in the Boston-New York market has been steadily increasing. As of the 3rd Q 2006 the average round trip fare to New York averaged \$255. This fare is down slightly from the 2005 high of \$268 but higher than any other year since 2000 (see Exhibit 4-23 above).

Passenger traffic patterns at Logan Airport have shifted over the past five years. As shown in Exhibit 4-24, demand has shifted away from the Mid-Atlantic and New England states to the Mountain, Pacific, Southeast and Midwest regions. Travel to the Southeastern portion of the U.S. has grown to 29 percent of Logan traffic from 25 percent ten years ago, while traffic in short haul markets to Mid-Atlantic states has declined from 31 percent to 25 percent during that same period. The increased traffic in the Mountain region stems from United's increased service to its Denver hub.

Exhibit 4-24: O&D Passengers by Region from Boston Logan Airport

	O&D Passengers			% of BOS Market Share			CAGR
US Region	YE3Q96	YE3Q01	YE3Q06	YE3Q96	YE3Q01	YE3Q06	'96-'06
Great Lakes	2,270,130	2,001,370	2,279,160	12%	11%	11%	0.0%
Mid-Atlantic	5,764,800	5,153,150	5,118,370	31%	28%	25%	-1.2%
Midwest	729,490	764,180	805,390	4%	4%	4%	1.0%
Mountain	**528,500**	**708,890**	**755,290**	**3%**	**4%**	**4%**	**3.6%**
New England	361,230	269,190	168,130	2%	1%	1%	-7.4%
Pacific	**2,929,650**	**2,879,250**	**3,691,710**	**16%**	**15%**	**18%**	**2.3%**
Southeast	**4,681,710**	**5,247,990**	**5,874,450**	**25%**	**28%**	**29%**	**2.3%**
Southwest	1,240,380	1,276,300	1,383,330	7%	7%	7%	1.1%
US Territories	259,200	325,120	338,840	1%	2%	2%	2.7%
Total	**18,765,090**	**18,625,440**	**20,414,670**				**0.8%**

Source: O&D Database via database products

4.5 CARGO TRAFFIC

Logan airport was the 23rd largest U.S. airport in terms of cargo volume as of the year ending September 2006 (Exhibit 4-25). Of the top 25 airports, nine are primary or secondary sorting hubs for all-cargo carriers. When all cargo airline hubs are excluded, Logan is the 14th largest airport in terms of cargo volume.

Exhibit 4-25: Top U.S. Airports Ranked by Cargo Volume (CY 2005)

2006 Rank	2005 Rank	Airport	Code	Total Cargo (Metric Tons)
1	1	Memphis	MEM	3,832,983
2	3	Los Angeles	LAX	2,172,999
3	4	Louisville	SDF	2,143,867
4	5	Miami	MIA	1,934,055
5	7	Chicago O'Hare	ORD	1,815,047
6	2	Anchorage	ANC	1,795,642
7	6	New York J F Kennedy	JFK	1,751,486
8	8	Indianapolis	IND	1,106,814
9	9	New York Newark	EWR	984,289
10	10	Atlanta	ATL	939,349
11	11	Dallas/Fort Worth	DFW	894,615
12	NA	Wilmington	ILN	832,488
13	12	Oakland	OAK	745,154
14	14	Philadelphia	PHL	674,882
15	13	San Francisco	SFO	612,584
16	16	Honolulu	HNL	583,672
17	15	Ontario	ONT	559,687
18	17	Houston Intercontinental	IAH	447,993
19	20	Seattle/Tacoma	SEA	377,573
20	24	Phoenix	PHX	341,306
21	22	Denver	DEN	338,068
22	23	Washington Dulles	IAD	330,539
23	**18**	**Boston**	**BOS**	**328,512**
24	25	Minneapolis	MSP	295,191
25	26	Portland	PDX	288,406
26	NA	Rockford	RFD	256,365
27	32	Dallas-AFW	AFW	234,456
28	31	Detroit	DTW	230,233
29	NA	San Juan	SJU	220,505
30	29	Orlando	MCO	216,952

Source: T100 Database, YE September 20065

Five all-cargo airlines had operations at Logan in 2006. In addition to the all-cargo carriers, passenger airlines also provide belly cargo capacity at the Airport.

Exhibit 4-26: All Cargo Airlines Operating at Logan (CY 2006)

Airborne / DHL	Kitty Hawk
BAX Global	UPS
Federal Express	

Note: Cargo Airlines listed with over 30 operations for CY 2006
Source: Massport

In FY 2006, Logan Airport handled 679,000 tons of cargo. In the last year, cargo volumes at Logan have fallen by 8 percent. All segments of cargo, from express/small package shipments, to heavy freight and mail have declined since FY 2004 as a result of slower economic growth and a shift by the cargo carriers, particularly the integrators[15], to move more shipments by truck (Exhibit 4-27).

Exhibit 4-27: Historical Trends in Cargo Volume

		Annual Percent Change		
Fiscal Year	Total Cargo	Express/Small Packages	Freight and Mail	Total Cargo
1990	763,656	14.3%	-7.8%	-2.1%
1991	786,421	20.0%	-4.4%	3.0%
1992	825,493	1.6%	1.8%	5.0%
1993	834,075	7.4%	-2.4%	1.0%
1994	895,252	19.7%	0.0%	7.3%
1995	932,005	13.7%	-2.7%	4.1%
1996	883,029	1.4%	-10.8%	-5.3%
1997	932,481	5.3%	5.9%	5.6%
1998	996,370	6.6%	7.1%	6.9%
1999	804,905	-3.4%	-34.1%	-19.2%
2000	854,684	6.0%	6.4%	6.2%
2001	798,368	-8.3%	-4.2%	-6.6%
2002	765,234	-2.5%	-6.4%	-4.2%
2003	744,838	1.5%	-0.2%	-2.7%
2004	759,275	1.3%	0.2%	1.9%
2005	741,517	-1.2%	-5.0%	-2.3%
2006	679,068	-10.7%	-5.9%	-8.4%
Average Annual Growth				
1990-1995		12.9%	-0.9%	4.1%
1995-2000		3.1%	-6.6%	-1.7%
1990-2000		7.9%	-3.8%	1.1%
2000-2006		NA	NA	-3.8%

Source: Massport

15 Unlike traditional all-cargo airlines, which only provide air services for packages and freight shipments, the integrated cargo carriers provide door-to-door delivery including the air and ground portions of a cargo shipment.

Historically, Logan's total cargo volume grew at an average annual rate of 1.1 percent from FY 1990 to FY 2000. However, express and small package shipments grew much faster at 7.9 percent per year, while heavy freight and mail declined by 3.8 percent annually. As a result, the composition of Logan's cargo activity has shifted over time. In FY 1990, express/small packages accounted for 30.0 percent of total volume, but in 2006 that segment represented 62.0 percent of the Airport's total volume.

4.6 GENERAL AVIATION

Annual general aviation ("GA") activity at Logan Airport is shown in the Exhibit below. In FY 2006, approximately 31,400 general aviation operations occurred at the Airport. While the term general aviation encompasses a broad range of activity from pilot training, to recreational and corporate use, the GA activity at Logan is primarily business and corporate aviation.

Exhibit 4-28: General Aviation Activity (CY 1985 to CY 2006)

Year	General Aviation Operations	Annual Percent Change
1985	30,523	-
1990	26,018	-7.2%
1995	24,070	0.2%
2000	40,371	19.0%
2001	31,687	-21.5%
2002	25,524	-19.4%
2003	28,660	12.3%
2004	31,236	9.0%
2005	32,652	4.5%
2006	31,444	-3.7%
Average Annual Growth		
1990-1995		-1.5%
1995-2000		10.9%
1990-2000		4.5%
2000-2006		-4.1%

Source: Massport

The U.S. general aviation sector is highly cyclical and fluctuates with changes in the economy as well as changes in the price of private aircraft ownership. After strong growth in the 1970s, the U.S. general aviation industry entered a long period of decline throughout the 1980s and most of the 1990s. During this period a series of

product liability lawsuits that drove up the cost of GA aircraft ownership dampened GA operations growth. The industry began to recover from this slump in the late 1990s after Congress passed liability reform legislation to help revitalize the industry.

For the most part, GA activity trends at Logan have largely mirrored national general aviation activity trends. After several years of slowly declining operations, general aviation operations at Logan began to increase in the late 1990s. From FY 1995 to FY 2000, GA operations at Logan increased at an average annual rate of almost 11.0 percent compared to average annual declines of 1.5 percent over the prior 5-year period. During this period Logan's GA operations increased by 19.0 percent and peaked at 40,400 operations in FY 2000, the result of a strong economy and special events in the Boston area that attracted significant numbers of corporate and private GA users to Logan.[16] After the 9/11 terrorist attacks, the Airport placed restrictions on GA activity which caused a decline in operations at Logan. GA activity has since rebounded from the low of 25,500 operations in FY 2002. Since that time, GA activity has been increasing steadily however the level achieved in 2006 was essentially constant when compared to 2004 activity.

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[16] In July 1999, Boston hosted the Major League Baseball Allstar game and in September 1999, the Ryder Cup Golf Tournament was held in Brookline, MA.

5 INDUSTRY OVERVIEW

5.1 INTRODUCTION

The U.S. airline industry has entered a period of continued, but cautious growth. SH&E believes that for the period from 2005 through 2025 airlines in the U.S. and globally will continue to expand their services, but will do so at a slightly slower pace[17]. In the North American market, passenger growth is estimated at 2.7 percent annually, on average with aircraft movements expected to rise 2.0 percent annually, on average, through 2025[18]. Continued fuel price fluctuation, competitive capacity initiatives, and pricing actions will affect the level and the type of capacity added. U.S. carriers will also continue to reallocate capacity from routes experiencing yield pressure (e.g. competitive north-south routes on the east coast) to routes with yield premiums available (e.g. trans-Atlantic and trans-Pacific services).

Three carriers, ATA, United, and US Airways exited bankruptcy protection in 2005 and 2006, poised for continued operations with lower costs and refocused efforts. Two carriers, Delta and Northwest, entered bankruptcy in 2005. Delta emerged from bankruptcy on April 30, 2007, and Northwest is anticipated to exit by mid 2007.

Through the completed or ongoing bankruptcy efforts, these carriers have attempted to address revenue, cost, and service aspects of their businesses. The two most notable areas of adjustment have been in capacity reallocation and employee compensation. Bankrupt carriers have adjusted capacity significantly, reducing directly, allocating to regional partners, or transferring aircraft and seat capacity to international services. Many view the reduction activities as long overdue, though competitive pressure causes periodic increases in capacity which then drive subsequent contractions due to overcapacity and poor route financial performance. The second major change realized through bankruptcy activities was wage renegotiation for airline employee groups and in some instances a redefinition of pension benefits, all designed to lower costs. Additional cost reduction activities focused on aircraft and facility leases as well as supplier renegotiations. Lastly, these carriers have worked to increase revenues through modified distribution practices and

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[17] International Air Transport Association forecasts growth will slow from 8.0% in 2006 to 4.0% in 2007, with a flat operating profit, Air Transport Association (March 2007) advised of a weakening domestic revenue environment while international revenue rose 13.0%, year-over-year.
[18] Airports Council International, Global Traffic Forecast, 2006 to 2025.

capitalization on capacity reduction benefits of less discounted seat inventory, driving higher load factors and higher average fares.

Network carriers not operating under bankruptcy protection have weathered increasing fuel costs through fare increases, network rationalization, and cost control efforts across their operations. American Airlines is the only large network carrier[19] to have avoided bankruptcy, whereas Continental has been through the bankruptcy process twice, exiting many years ago. Both of these carriers have maintained their focus on network coverage and full service products to drive premium traffic and repeat customer business.

LCCs – Southwest, JetBlue, and AirTran have been expanding rapidly –filling some of the void left by downscaling network carriers. LCCs have grown their route structures, entered network carrier hubs, added services competing directly with network carriers, and in some cases begun competing with each other. After years of very rapid growth, some of these carriers have experienced operational and revenue challenges, and are now planning slower and more deliberate growth going forward. All of these industry factors directly or indirectly affect current and future airline service and passenger growth at Logan Airport.

5.2 U.S. INDUSTRY

The past six years has been a very challenging period for the industry, but one in which some airlines were able to grow their networks significantly, notably JetBlue and AirTran. During this period the network carriers (e.g. American Airlines, Delta Air Lines, and United Airlines) have refocused their operations, trimming headcount and routes, reallocating flying, and adding service in a focused manner, whether domestic or international. The LCCs have expanded rapidly, entering new markets across the country, competing with each other and competing directly with network carriers.

Overall, the U.S. airline industry has shrunk its operating loss from $10 billion in 2001 and $9.5 billion in 2002 to $2 billion in 2005. In 2006, the industry experienced an operating profit of approximately $4.3 billion based upon initial projections and available data (Exhibit 5-1).

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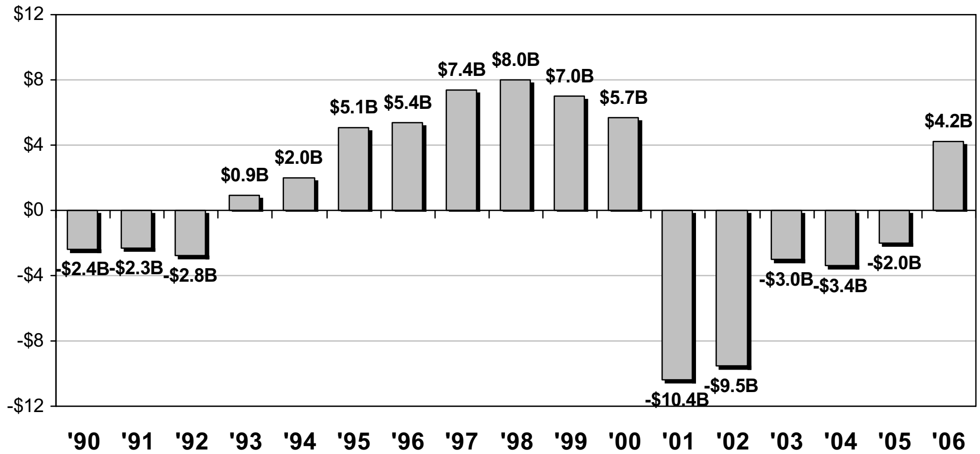
[19] Large network carriers, for this example, include American, Continental, Delta, Northwest, United, and US Airways.

Exhibit 5-1: Operating Income of U.S. Scheduled Airlines (In $ Billions, *CY 1990 to CY 2006)*

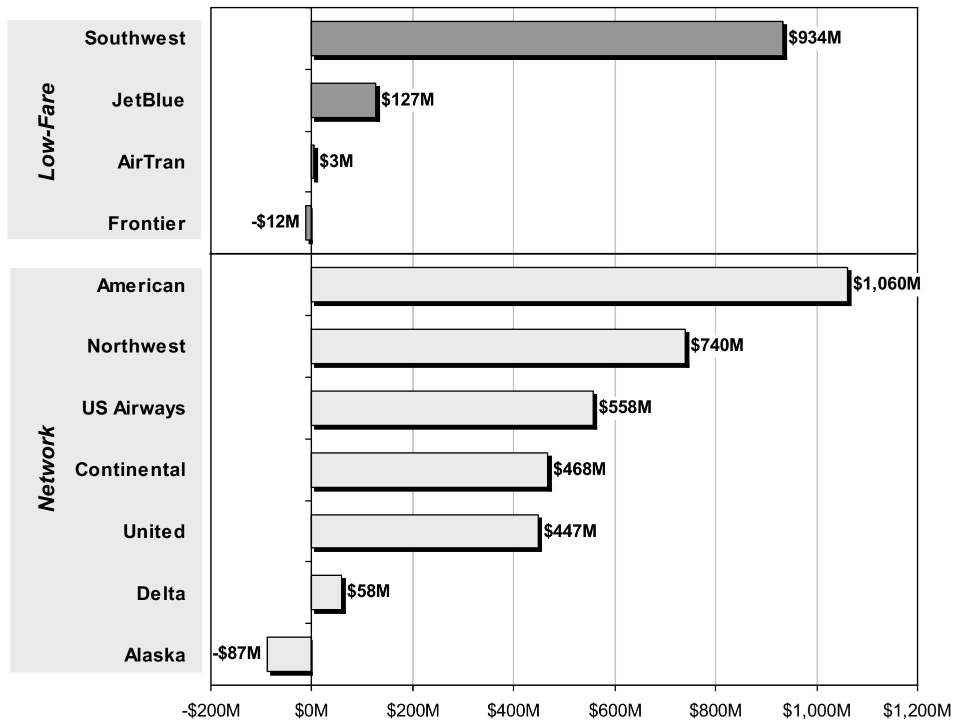


Source: U.S. DOT Form 41 Database, note 2006 figure includes American, Southwest, Northwest, US Airways, Continental, United, jetBlue, Delta, AirTran, Frontier, and Alaska Airlines

All major carriers and LCCs reported an operating profit in 2006, except Alaska Airlines[20] (Exhibit 5-2). Southwest led profits for the LCCs, with $934 million while jetBlue posted an operating profit of $127 million and AirTran $3 million. In looking at the network carriers, American had an operating income profit of $1.06 billion, followed by Northwest at $740 million and US Airways with $558 million. In 2006, the U.S. airlines were finally able to exert some degree of pricing power which resulted in higher revenues that helped offset increased fuel costs and drove higher yields on refined route networks.

[20] Alaska Airlines was hit with a significant fleet adjustment charge related to its 737 fleet and a significant incentive program contribution due to a strong financial year.

Exhibit 5-2: Financial Results for U.S. Major Airlines (2006)



Source: Selected Carrier Reports

Due to the significant bankruptcy activities of United, Delta, and Northwest, operating income was used for comparative purposes to remove the effect of extensive "one-time" restructuring costs.

While the industry had a profitable year in 2006, structural changes within carrier ranks continued to take place. One of the most striking developments of the year was the growth in seat capacity by the LCCs and the relative restraint in response to this growth by legacy carriers. AirTran increased its capacity by 23.7 percent, JetBlue increased capacity by 20.6 percent, and Southwest increased by 8.8 percent. For the network carriers, capacity growth was principally the result of increases of 8.9 percent at Continental, 4.4 percent at Alaska, and 2.0 percent at United. Evidence of carrier capacity restraint includes:

- As of November 2006, Delta's domestic capacity dropped by 14.0 percent year-over-year while its system-wide capacity was down 7.0 percent year-over-year, highlighting a focus shift toward international flying. Delta

expects 2007 ASM growth of 2.0 percent to 4 percent, down 3.0 percent domestically, and up 14.0 percent to 16.0 percent internationally[21].

- American's system capacity was down 4.0 percent year-over year[22]. For the year ended March 2007, American's domestic capacity was down 3.1 percent while its international capacity was down 1.3 percent[23].
- For 2007, United is projecting 1.0 percent or less growth in ASMs across mainline and affiliated carrier service[24].

Since 2000, airlines have shifted a significant percentage of their flying to their affiliated partners operating regional jets on their behalf. Regional jets have also been increasing in size, from the initial 35- to 50-seat aircraft to regional jets seating more than 70 passengers. Regional jet operations by affiliated carriers are a less expensive way for network carriers to provide services to smaller destinations – maintaining broad service coverage – while optimizing revenues and minimizing costs. Between 2000 and 2007, regional jet capacity, as a percentage of domestic seats, has grown from 5 percent to approximately 19.0 percent in 2006 and 2007. As the carriers have worked to refine their cost structures, mainline carriers have in some cases put their long-standing regional provider services out to bid, denying incumbents an automatic renewal. For example:

- Continental replaced a portion of ExpressJet flying with service by Chautauqua
- United replaced some of Air Wisconsin's flying with SkyWest
- Delta is making all incumbents bid to retain flying
- Northwest will launch[25] its own subsidiary, Compass, in May 2007, to compete with and pressure Mesaba and Pinnacle – two of its current regional providers

Though these changes may reduce the cost component for mainline carriers, the ability to expand regional feeder service may be limited as airlines may be approaching the scope limits[26] of the activity that can be performed by regional

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[21] Calyon Securities Delta Air Lines Update, March 29, 2007.
[22] Airline Business, January 2007.
[23] Aviation Daily, April 6, 2007.
[24] Morgan Stanley UAUA 10K Review, April 2, 2007.
[25] Aviation Daily, April 6, 2007.
[26] Scope limits, in general, place restrictions on the amount and type of flying that can be done by affiliated airlines on behalf of the mainline carrier. These restrictions vary between carriers and can include limitations such as the size and number of aircraft being flown, length of journey served, and percentage of operations, for example.

partners. Should this be the case, the airlines' ability to further refine their route structures through increased regional carrier flying may not be possible. One analyst believes it will be "difficult for airlines to realize substantial changes in scope clauses with 2008-2010 pilot contract negotiations"[27].

As shown in Exhibit 5-3, overall, the U.S. domestic airline industry is not highly concentrated, in terms of carrier domination. The top three carriers, in terms of capacity, account for approximately 40.0 percent of total domestic capacity, while the top five carriers account for approximately 60.0 percent of domestic capacity.

Exhibit 5-3: U.S. Airline Domestic Service Concentration – Share of Weekly Seat Capacity (December 11, 2006)

Airline	Capacity Share	Low Cost Carriers Airline	Low Cost Carriers Share	Network Carriers Airline	Network Carriers Share	Other Carriers Airline	Other Carriers Share
Southwest	14.5%	Southwest	14.5%	American	14.0%	Other	14.8%
American	14.0%	JetBlue	4.0%	United	11.1%		
United	11.1%	AirTran	3.7%	Delta	10.8%		
Delta	10.8%			US Airways	9.2%		
US Airways	9.2%			Continental	9.1%		
Continental	9.1%			Northwest	6.6%		
Northwest	6.6%			Alaska	2.2%		
JetBlue	4.0%						
AirTran	3.7%						
Alaska	2.2%						
Other	14.8%	**Total Low Cost**	**22.2%**	**Total Network**	**63.0%**	**Total Other**	**14.8%**

Source: Innovata, Airline Data, 12/11-12/17/2006 – Continental U.S. Only

This example illustrates that the national system is much like that at Logan, with capacity spread across many carriers with significant competition and opportunity. Should a carrier significantly alter operations, several carriers are poised to absorb service opportunities.

Exhibit 5-3 also illustrates that LCCs account for approximately 25.0 percent of U.S. domestic capacity (allocating a portion of the "other" based upon 2006 annual statistics shown later) and that network carriers account for the majority of domestic capacity. Due to their rapid expansion, LCCs have a significant impact on the market relative to their proportion of activity.

[27] Prudential Equity Group, LLC Research, Embraer-Empresa Brasileira de Aeronautica S.A., April 12, 2007.

5.3 NETWORK CARRIERS

In recent years network carriers have cut their costs significantly, shedding hundreds of millions of dollars in annual expenses, particularly labor costs, as well as shifting more of their service to their lower-cost regional affiliates, many of whom operate smaller regional jets. However, this effort has been offset by the rapid rise in fuel expenditures, which has grown substantially as a percentage of operating costs. This increase has meant that jet fuel has gone from approximately 15.0 percent of airline expenses in 2000 to 27 percent in 2006, seriously compromising carrier gains in cost cutting and route efficiency, and creating further financial challenges.

Network carriers have consistently earned a yield premium over LCCs and this trend is expected to continue where network carriers provide advantageous services. As part of their restructuring efforts, network carriers have refined route structures, shedding many routes where direct low cost carrier competition was significant and yield premiums did not adequately warrant continued service (e.g. reductions in the New York/Florida markets by Delta and its Song subsidiary as jetBlue increased services). Though growth in yield is expected to continue in 2007, it is anticipated that growth will occur at a slower pace. Network carriers have been able to leverage their position and the strength of the economy in order to charge premiums for enhanced service and network breadth. Continental Airlines increased 1st quarter 2007 seat capacity by 5.0 percent and grew unit revenues by 5.0 percent as well[28]. Strong international route networks attached to these carriers has also been beneficial because this represents higher yielding traffic and reduced competition. Delta projects that its international revenues will grow from 35.0 percent of total revenues to 50.0 percent within the next five years. The carrier is building many long and thin routes[29] (e.g. New York – Budapest) and installing new lie-flat beds in business class to drive increased premium cabin revenues. The carrier has been shifting aircraft out of its domestic system, retrofitting the interiors, and utilizing these for international services, helping it restrain overall growth. American Airlines recently commenced a business class product upgrade across its international fleet and United Airlines has announced plans to upgrade both its first and business class international products.

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[28] Morgan Stanley, 1Q2007 LUV Report, April 4, 2007.
[29] "thin routes" are those routes with limit number of daily passengers volumes.

For many network carriers, international growth has become a principle focus with significant international destination increases since 2000 from their hubs, including:

- Continental – Newark (EWR) destinations have grown from 40 to 70
- Delta – New York (JFK) destinations have grown from 22 to 35
- United – Washington (IAD) destinations have grown from 8 to 23
- US Airways – Philadelphia (PHL) destinations have grown from 16 to 34

5.4 LOW COST CARRIERS

For the LCCs, several years of extremely rapid expansion have caused operational concerns as well as competition among themselves as well as with the network carriers. The low cost carrier model has been built through aggressive expansion, principally focusing on point-to-point markets, and initially focusing on second tier routes and cities. To provide perspective, ten years ago the LCCs were focused principally on short-haul markets. Today, LCCs provide almost 30.0 percent of seats in short-haul markets in the U.S., but also provide about 19.0 percent of long-haul seats. LCCs also have begun to add longer haul leisure markets in the Caribbean.

As the LCCs have increased in number and expanded services, route opportunities have become more challenging. To continue growth, the LCCs have changed plans and in some cases are competing directly with network carriers, and in others, competing directly with each other. In developing their service programs, some of the LCCs have taken a broad challenge against the network carriers. This has been seen in Southwest's expansion into Denver, Washington Dulles, and San Francisco in direct competition with United and in direct competition with Frontier in Denver. In Philadelphia, Southwest developed service to compete with US Airways. Southwest has been challenged in terms of net revenue development in the recent past. For the 3rd quarter of 2006, net revenue was 70.0 percent lower than in 2005, and for the 1st quarter of 2007, RASM growth was 1.0 percent compared to a 7.2 percent increase in capacity. In Boston, jetBlue has become a significant passenger carrier at the Airport adding destinations from Florida to California to the Caribbean, competing with network carriers like American, Delta, United, and US Airways. Since 2004, this carrier has grown its Boston service from approximately 91 weekly departures to more than 315 weekly departures[30]. JetBlue has been facing numerous well publicized challenges due to its rapid expansion in terms of its operational

[30] OAG Schedule Files

performance and its ability to capture business travelers. Another low cost carrier, AirTran, has also been expanding rapidly, which include its operations in Boston. This carrier competes directly with Delta in Atlanta and from its base in Orlando.

While these carriers will continue to grow, their networks are anticipated to grow at a slower rate than in the recent past :

- Southwest is forecasting 7.0 to 8.0 percent growth for 2007, lower than its usual 8.0 to 10.0 percent growth pattern, but in line with the current state of the industry[31]
- jetBlue is projecting 2007 growth of 11.0 to 14.0 percent versus the company's previous projection of 10.0 to 20.0 percent growth while the company focuses on cost cutting programs and expanding its reach to the business traveler community[32]
- AirTran had been growing 20.0 to 25.0 percent per year, but has projected a growth level of approximately 9.0 to 11.0 percent in 2008 while at the same time the carrier is postponing some aircraft deliveries for 2007 and 2008 to 2009 and later

As with the network carriers, these carriers will continue to grow service while looking for opportunities to drive increased yields and maintain operating costs.

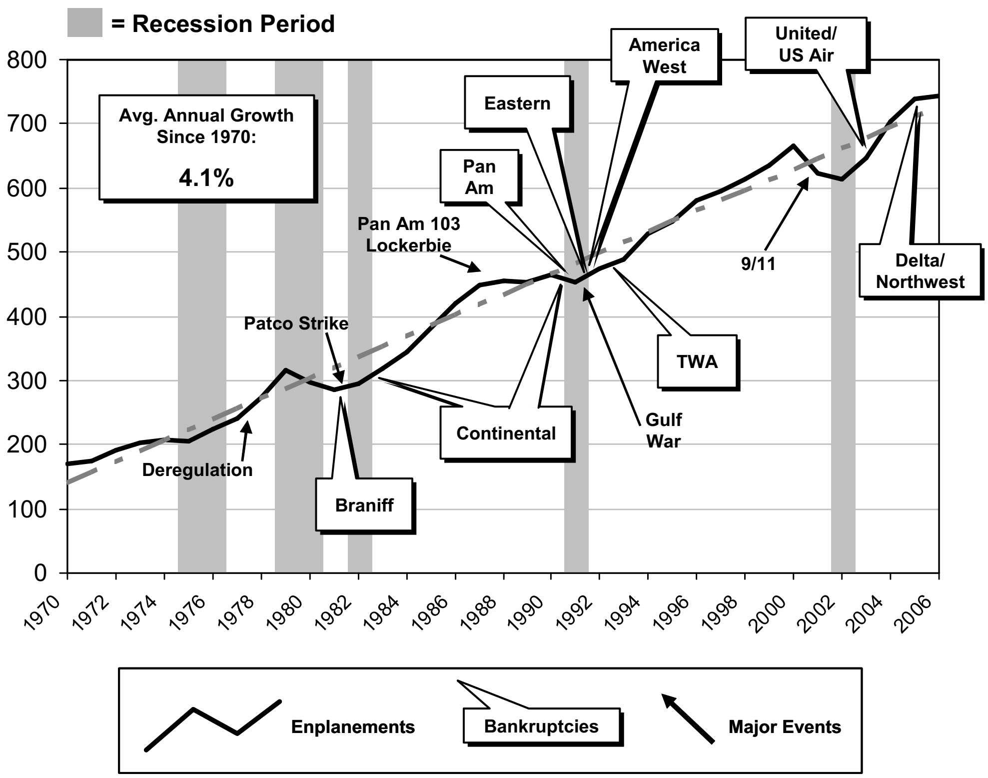
5.5 HISTORIC SYSTEM SHOCKS AND RECOVERIES

The airline industry is extremely cyclical – constantly being affected by economic and political events. Industry traffic has declined during all of the economic recessions of the past decades. Many of those recessions have coincided with other shocks such as the PATCO air traffic controllers strike in the early 1980s, the Gulf War in 1990/91, and several airline liquidations and reorganizations in the early 1990s and again in the first half of this decade (see Exhibit 5-4 below). Also, political "shocks" such as the events of 9/11 and the failed liquid bombing attack of August 2006 have challenged and changed the airline environment significantly, also causing passenger travel falloff and gradual recovery cycles.

[31] Morgan Stanley, 1Q2007 LUV Report, April 4, 2007
[32] Airline Business, December 2006

In all cases the industry has recovered and growth in air passenger traffic resumed. In some cases, significant capacity reductions followed shocks – e.g. bankruptcy reorganization caused many carriers to reduce their fleets and networks while the events of 9/11 saw the U.S. industry reduce capacity by approximately 13.0 percent, before gradually rebuilding capacity in succeeding years as traffic resumed growth. From 1970 to 2006, domestic passenger enplanements have increased at an average annual rate of 4.1 percent.

Exhibit 5-4: Airline Industry Shocks and Recoveries, U.S. Domestic Revenue Enplanements, (In Millions, 1970 to 2006)



Source: Air Transport Association

Though recovery has occurred after each shock, "IATA", the International Air Transport Association, on April 4, 2007, warned of the fragile nature of carriers' balance sheets, advising that carriers have not been able to use the increased revenues received to bolster their balance sheets significantly. "Balance sheets for U.S. airlines in particular have deteriorated significantly, because of the losses of recent years," warns IATA. "High fuel costs prevented any accumulation of cash from the

revenue boom of the past three years"[33]. It is important to realize that this fragile condition could drive further bankruptcies and consolidation activities in the next down cycle.

5.6 THE FUTURE

The U.S. airline industry posted an operating income profit in 2006 of approximately $4.3 billion. For 2007, it is anticipated that airlines will continue restrained expansion as cost reduction and revenue optimization programs continue. Fuel pricing remains volatile and could significantly impact airline profitability depending upon the scope and duration of fuel price shocks.

Longer-term, industry leaders foresee another round of industry consolidation, which may impact both network and LCCs. A precursor to this process may have been US Airway's attempted takeover of Delta Air Lines in November 2006 and AirTran's current offer to acquire Midwest Airlines. As presented, LCCs are beginning to compete more directly with each other and with network carriers and this may force consolidation among their ranks, with carriers such as Spirit or Frontier becoming potential targets.

Industry sources expect continued growth in the airline industry, though at a slower pace. In looking at net income for 2007, IATA predicts a net loss for the U.S. industry of $600 million (net) versus the net loss of $5.7 billion in 2006 (which included significant reorganization expenses). For 2008, IATA projects net profits for the U.S. industry of $2 billion. One of the key assumptions in the IATA forecast is that "an economic recession is not forecast during the next two years. Nonetheless, airline balance sheets were stronger going in to the past five recessions than they are today. Outside the U.S. balance sheets are healthier, but still fragile in the face of the sort of shocks that the industry has suffered in the past decade."[34]

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[33] Air Transport Intelligence News, April 4, 2007.
[34] Air Transport Intelligence News, April 4, 2007.

5.7 TRAFFIC AND CAPACITY TRENDS

5.7.1 Passenger Traffic

As stated in a previous chapter of this report, over the long term air travel demand has been strongly correlated to growth in GDP. During periods of economic expansion passenger traffic typically grows and during economic contractions traffic typically declines. However, recent experience provides several examples of how this scenario does not always hold true – as other external influences can affect airline and passenger behavior.

Looking at the last major economic downturn, in 1991, passenger traffic growth did not return until the 1st quarter 1992, when real GDP increased by 2.3 percent. The nation experienced positive growth in real GDP over the next nine years, and passenger enplanements increased in every quarter except for 3rd quarter 1993 and 1st quarter 1998. Industry traffic reached a peak level of more than 173 million enplanements[35] in 3rd quarter 2000. Then, as the stock market tumbled and economic growth slowed following the events of 9/11, air passenger growth also slowed. In the latter half of 2001 real GDP growth slowed significantly and passenger enplanements dropped by approximately 19.0 percent versus the 4th quarter of 2000. Since that time, GDP growth has returned at a modest pace (Exhibit 5-5).

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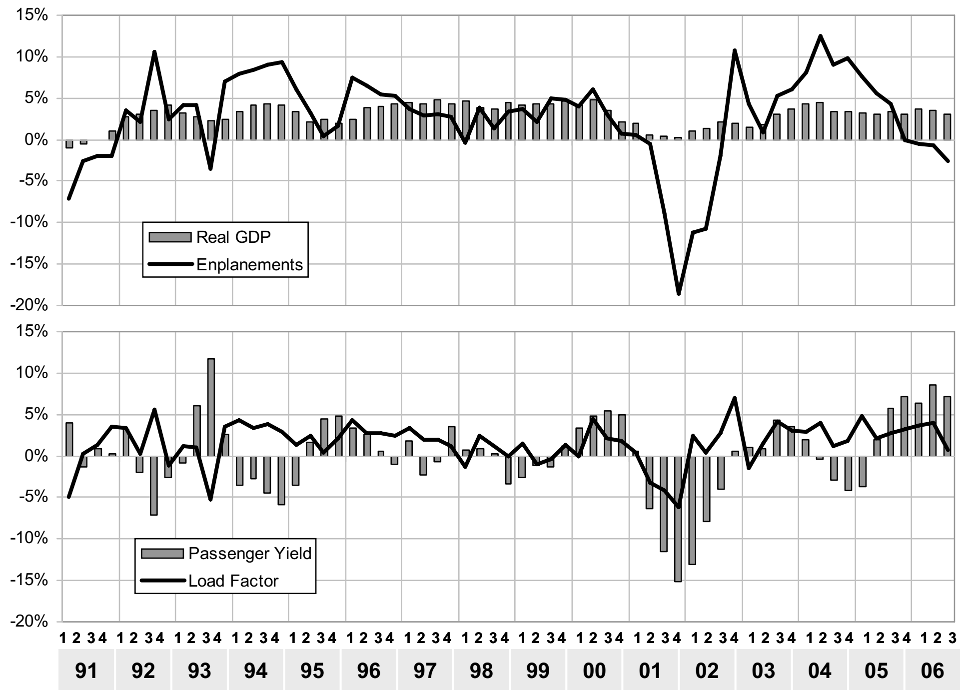
[35] Enplanements for scheduled US air carriers only. Excludes charter carriers and most regional airlines.

Exhibit 5-5: U.S. Scheduled Carrier Enplanements and U.S. Real GDP, Percent Change Over Prior Year (1Q 1991 to 3Q 2006)



Source: U.S. DOT Form 41, Bureau of Economic Analysis, 2/28/07

Initially, in 2002, passenger enplanements grew significantly reflecting strong travel recovery– shown as a surge in activity, followed by a resumption of more modest growth. During the 2003 to 2004 period another spike in enplanement growth occurred, principally due to the aggressive activities of Independence Air in terms of capacity and fare initiatives as well as the continued rapid expansion of jetBlue. These activities triggered fare sales (6.0 percent to 7.0 percent lower year-over-year) and capacity increase initiatives across the industry, driving a significant jump in passenger enplanements.

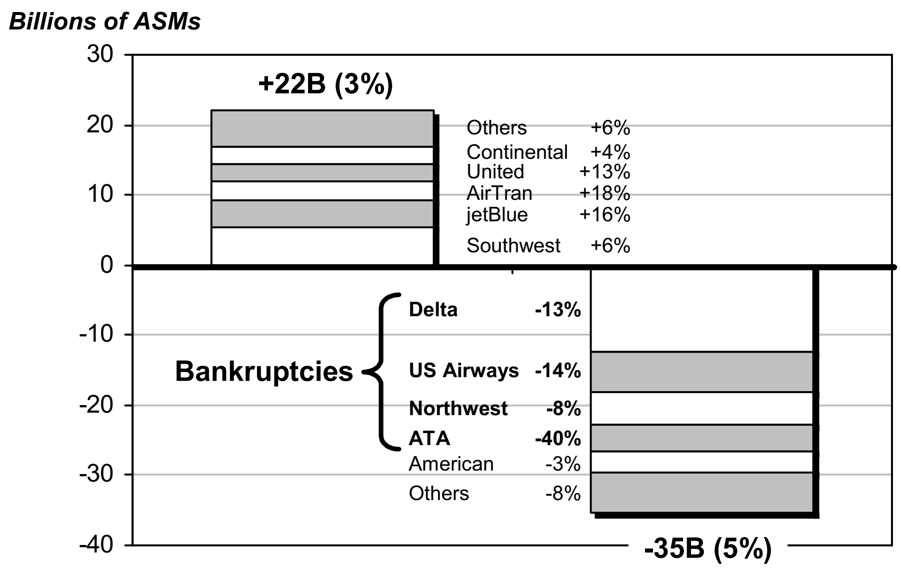
From 2005 to the 3rd quarter of 2006, enplanement levels have declined even though the U.S. is in a period of economic growth. Non-bankruptcy carriers reversed an initial period of aggressive and competitive growth and those carriers in bankruptcy significantly restructured their operations (e.g. Delta, Northwest, and US Airways). This reduction in capacity drove a modest reduction in enplanements.

Though the economy was expanding, airline capacity reductions drove increasing load factors as well as increased yields which drove a decline in enplanements as

shown in the exhibit above. This result is contrary to what would be expected based upon historical experience relative to GDP performance, though it is a short-term effect as data shows increasing capacity in 2007 which will drive increased enplanements.

Through the bankruptcy and reorganization process at US Airways and America West, ASMs for the combined entity dropped 14.0 percent from 2005 to the 3rd quarter of 2006. Historically, through American's integration of TWA in the 2000 to 2001 period, combined ASMs for the carriers dropped 13.0 percent. Exhibit 5-6 below highlights capacity changes between 2005 and the 3rd quarter of 2006, showing the significant capacity reductions among carriers in bankruptcy.

Exhibit 5-6: Change in U.S. Carrier Domestic Available Seat Miles (ASMs) (2005 vs. YE 3Q 2006)



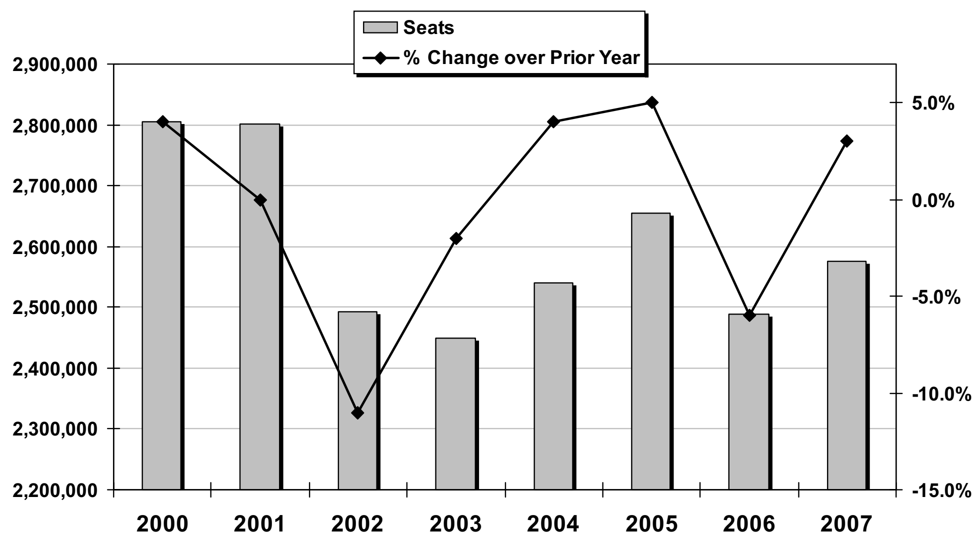
Source: U.S. DOT Form 41, Database Products, Inc. Note: Others: Skywest +13%, Midwest +12%, Frontier +8%, Horizon +5%, Mesa -8%, Spirit -14%, Comair -16%, Aloha -18%, Mesaba -29%.

5.7.2 Capacity Trend Review

In looking at capacity activity over the period from 2000 to 2007, the cyclicality of capacity additions and contractions is clear. As illustrated in Exhibit 5-7, capacity adjustments over the past six years have followed a pattern of large reductions in daily seat capacity followed by growth and then further reductions, ending with March 2007 showing approximately 3.0 percent growth in capacity versus March of 2006.

Looking back to 2001, airlines responded immediately to weakened air travel demand and escalating operating costs by significantly curtailing capacity. During CY 2002, airlines cut domestic scheduled seats by 10.9 percent and followed this with further cuts in 2003. In 2004 and 2005 the airlines added back capacity, but in a restrained manner, despite record volumes of passenger activity. In 2006, airline capacity was down approximately 6.0 percent versus 2005, based upon continued network refinements and reductions in service of those carriers operating in bankruptcy. In 2007, as noted, domestic capacity is up approximately 3.0 percent, but remains below the 2000 peak of 2,800,000 seats, with March 2007 showing just under 2,600,000 seats.

Exhibit 5-7: U.S. Domestic Scheduled Daily Seats (March 2000 to March 2007)

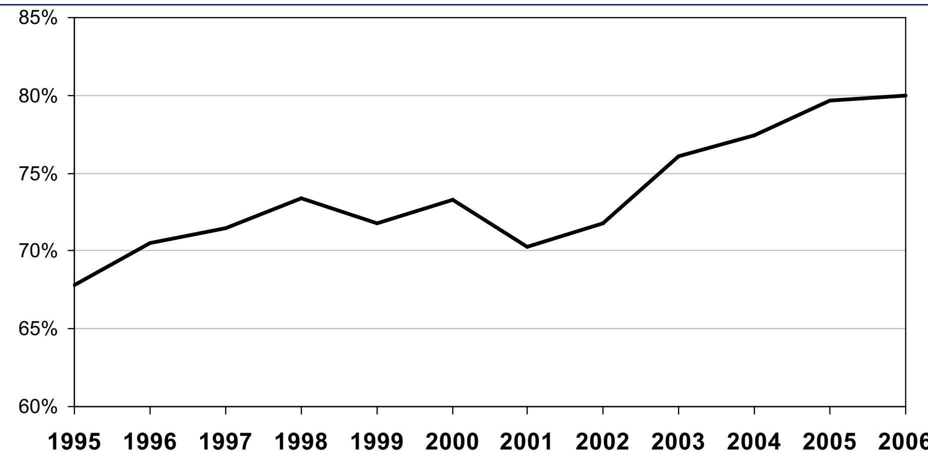


Source: Official Airline Guide

Combining the increased number of passengers and reduced number of seats, airlines are carrying more passengers with less capacity. Exhibit 5-8, shows U.S. domestic airlines had been operating with load factors in the low 70s from 1997 through 2000, with a significant dip to 70 percent in 2001 as passenger traffic declined faster than airlines could reduce capacity. From that point, load factors rose to nearly 80 percent in the 2005 to 2006 timeframe, and have now appeared to level off.

Exhibit 5-8: Rising U.S. Domestic Load Factors, (3Q 1995 to 3Q 2006)

Source: U.S. DOT Form 41



Specifically, load factors have reached new peaks in each of the last four years, with 76.1 percent in 2003, 77.4 percent in 2004, 79.7 percent in 2005, and 80.0 percent in 2006. These load factors reflect improved capacity and revenue management.

5.7.3 Aircraft Orders

Aircraft orders are constantly shifting as carriers adjust orders to reflect market activities and changes to long-range plans. At present, based upon ACAS data from March 2007, aircraft orders in place for delivery through 2011 are weighted 54.0 percent for the network carriers and 46 percent for the LCCs.

It is important to note that a significant portion of the low cost carrier aircraft orders are principally focused with AirTran and JetBlue and to be aware that both of these carriers have announced plans to slow a portion of their new aircraft deliveries to reduce their pace of expansion and solidify existing operations. On the other hand, and a reversal of sorts, network carriers now hold the greater percentage of new aircraft orders and deliveries for the period through 2011, with 54.0 percent. Additionally, American Airlines announced in March 2007 that it will selectively request advance delivery of some of the new Boeing 737 aircraft to speed retirement of less efficient aircraft.

The activity by American Airlines is believed to be the beginning of major fleet replacement programs by the network carriers. As the network carriers have addressed competitive service, cost, and revenue challenges while strengthening their operations over the past six years, significant aircraft orders have been deferred. For example, for American Airlines, in looking at retiring its MD82/83 fleet, it has to

plan for the replacement of approximately 300 in-service and 51 in-storage versions of the type. A fleet replacement program of this magnitude has a long lead time (aircraft evaluation, financing, production) and is very costly for the carrier. In looking at another aircraft type in the carrier's fleet, the airline has approximately 142 Boeing 757 aircraft in service while United Airlines operates approximately 97 of this type. For the network carriers, the fleet renewal process is extremely costly and time consuming but necessary for their long-term survival. Given the illustrative aircraft sub-fleet figures outlined in Exhibit 5-9, it is clear based upon orders in place that the network carriers have significant orders to place.

Exhibit 5-9: Current New Aircraft Order Book for U.S. Carriers (2007 to 2011)

Carrier	2007	2008	2009	2010	2011	Total
Alaska	10	7	3	6	3	29
American	0	0	0	0	0	0
Continental	2	26	21	10	10	69
Delta	10	16	20	19	0	65
Northwest	16	56	14	6	4	96
United	0	0	0	2	2	4
US Airways	13	20	36	28	6	103
Subtotal - Network	51	125	94	71	25	366
AirTran	12	16	17	10	5	60
Frontier	1	9	4	0	0	14
JetBlue	22	22	26	30	28	128
Southwest	38	29	18	10	10	105
Subtotal - LCC	73	76	65	50	43	307
Total	124	201	159	121	68	673
Majors	41%	62%	59%	59%	37%	54%
LCCs	59%	38%	41%	41%	63%	46%

Source: ACAS, December 2006

5.8 AIRLINE REVENUE AND EXPENSES

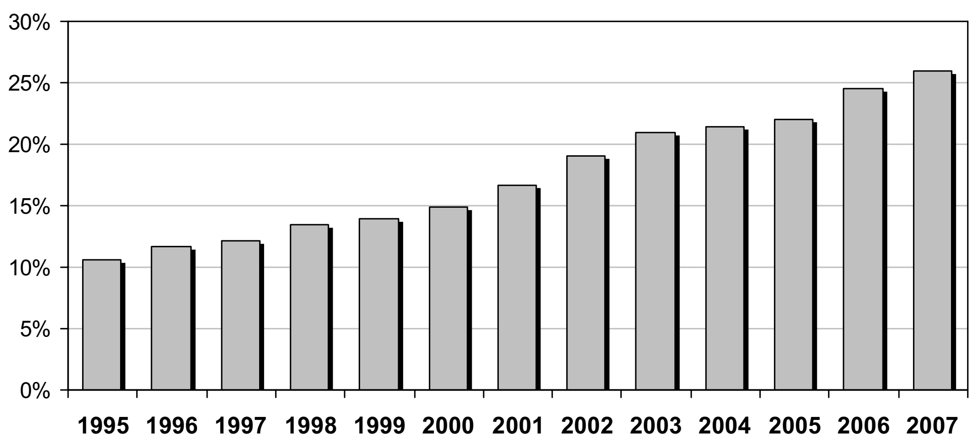
5.8.1 Revenues

During the past decade, changing travel patterns, particularly among business passengers, have had a significant effect on airline revenues. With the explosion of the online ticketing through airline and other travel service company providers, it has

become increasingly easy for the traveling public – business and leisure travelers alike – to utilize low-yield, non-refundable fares that were initially targeted toward leisure passengers. At the same time, network airlines have been able to extract a yield premium from a sufficient number of passengers for their premium products (e.g. first and business class services, enhanced seating areas) such that these services are being enhanced and expanded by several carriers.

Though the network carriers are adjusting service offerings to reach a broad spectrum of customers – premium to price sensitive - it is important to realize that the percentage of seats provided to the marketplace by LCCs has risen from just over 10.0 percent in 1995 to 26.0 percent in 2007 (Exhibit 5-10), though growth appears to be leveling off, which ties to reports from both jetBlue and AirTran of more moderate going-forward growth. As previously discussed, LCCs have expanded rapidly and are now faced with challenges in finding new markets, competing amongst themselves, competing with network carriers, and controlling rising costs which will now be spread across slower network growth, driving up unit costs.

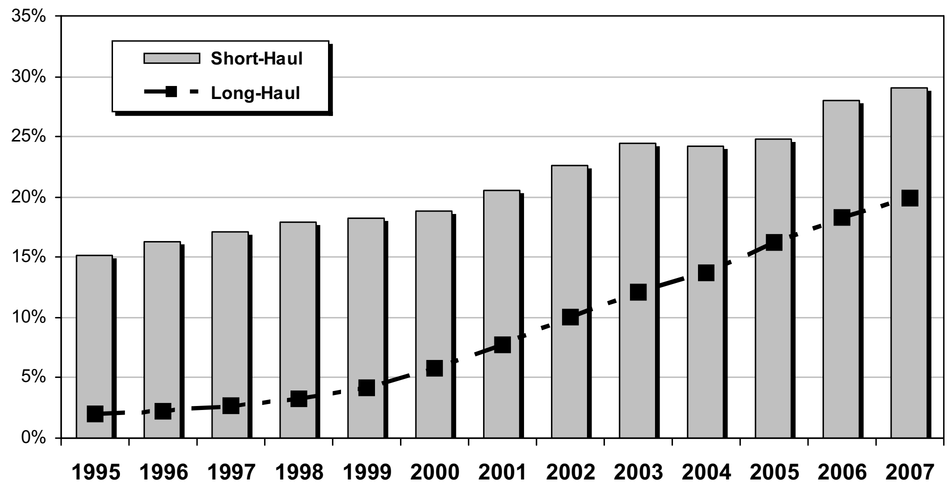
Exhibit 5-10: Percent of Low Cost Carrier Share of U.S. Domestic Seats, (1990-2007)



Source: Official Airline Guide.

Historically, LCCs had focused their competition in the short-haul markets. Over the past seven years, however, LCCs have expanded their networks and introduced a significant amount of long-haul flying (Exhibit 5-11). Initially, Southwest added transcontinental services. More recently, JetBlue started operations and added significant long-haul service from its JFK (New York) hub to cities in California and Washington. Today, LCCs provide approximately 29.0 percent of short-haul capacity and 19.0 percent of long-haul capacity in the U.S.

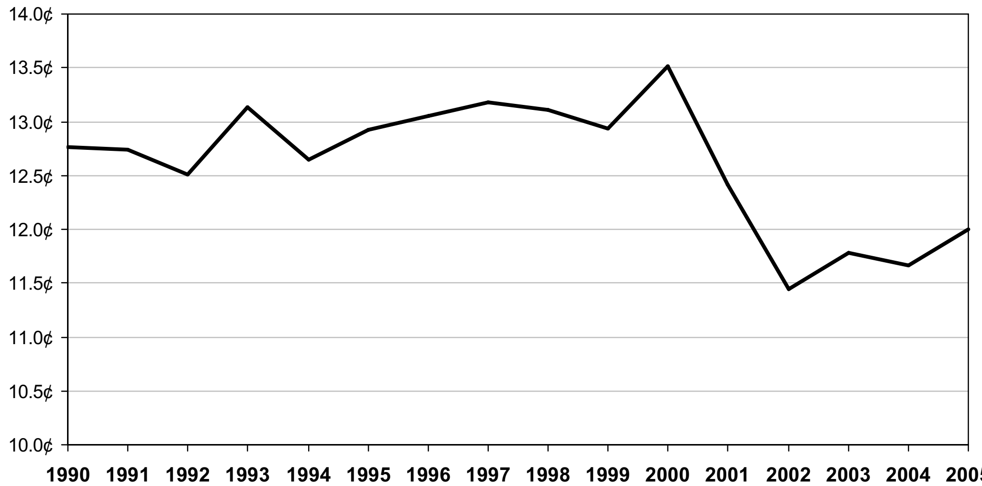
Exhibit 5-11: Low Cost Carriers Share of Short-Haul and Long-Haul Capacity, (1995-2007)



Source: Official Airline Guide, short-haul is trips under 500 miles.

Over the past five years, the average nominal yield for domestic entities has been recovering from a significant decline in 2001 (Exhibit 5-12). The average yield declined from approximately 13.5 cents to 11.5 cents, having reached its low point following the events of 9/11. Though network carrier yields remain higher than those of their low cost carrier competitors, all yields dropped significantly in 2001 and have been slowly recovering since that time. Overall, the effect of the LCCs, has been to drive the average industry yield downward. Network carriers can and do attract a higher and increasing yield than LCCs as demonstrated in Exhibit 5-13. It is important to note from this exhibit that low cost carrier yields have been increasing as well. Yield increase is a goal of the LCCs. JetBlue has recently decided to make its flights available for purchase through global distribution systems – the reservation systems used by travel agencies to book airline, hotel, and other travel arrangements, and favored by business travelers, so that the carrier can capture a larger share of the higher yielding business traveler traffic. Southwest Airlines, which has created a reputation as a low fare airline would like to increase its pricing, but is concerned that price increases will negatively affect its low cost image and drive passengers away.

Exhibit 5-12: Domestic Nominal Yields Reflect 2001 Shock and Gradual Recovery (1990 to 2005)



Source: Air Transport Association

Exhibit 5-13: Network Carrier and Low Cost Carrier Yields (2004 through YE Sept 2006)

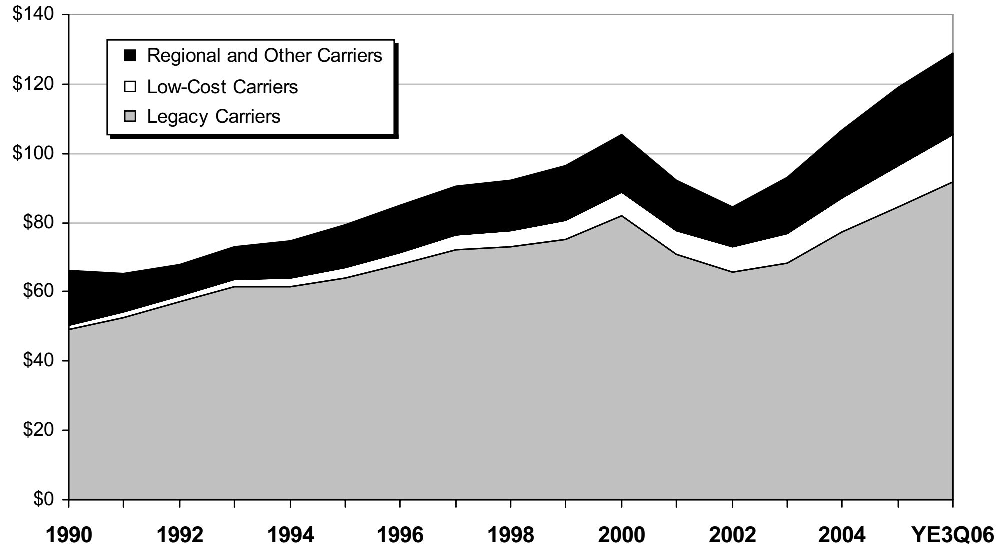
	Domestic Yield (¢)			2004 YE 3Q 06
Carrier	2004	2005	YE 3Q06	CAGR
Low Cost Carriers				
JetBlue	7.59¢	7.86¢	8.86¢	5.3%
AirTran	11.49¢	11.83¢	12.18¢	2.0%
Southwest	11.40¢	11.65¢	12.45¢	3.0%
Spirit	8.54¢	10.23¢	11.01¢	8.9%
Average Yield	**10.53¢**	**10.82¢**	**11.61¢**	**3.3%**
Network Carriers				
Northwest	13.23¢	13.13¢	14.17¢	2.3%
Continental	12.60¢	12.75¢	13.50¢	2.3%
US Airways	12.25¢	12.73¢	14.41¢	5.6%
United	11.13¢	11.75¢	12.87¢	5.0%
Delta	11.81¢	11.73¢	13.32¢	4.1%
American	11.10¢	11.45¢	12.31¢	3.5%
Average Yield	**11.83¢**	**12.09¢**	**13.28¢**	**3.9%**

Note: CAGR = Compound Average Growth Rate
Source: U.S. DOT, O&D Database, Database Products, Inc. (U.S. Airways and America West combined.)

Though the average yield declined from 13.51 cents in 2000 to 12.42 cents in 2001 and 11.45 cents in 2002 and passenger numbers declined to 614 million in 2001 and 589 million in 2002, from the 2000 high of 660 million, yields and passengers have grown since 2002, driving increased total U.S. industry revenues. By 2004, annual industry revenues had recovered sufficiently to surpass the 2000 peak of $105.5

billion by reaching $106.8 billion. By the third quarter of 2006 total U.S. Airline revenue had reached approximately $128.7 billion, more than 20.0 percent higher than the 2000 peak.

Exhibit 5-14: U.S. Airline Industry Revenues 1990 Through Sept 2006 (In $ Billions)



Source: U.S. DOT Form 41, note network carriers include American, Continental, Delta, Northwest, United, US Airways and low cost carriers include AirTran, Frontier, jetBlue, and Southwest

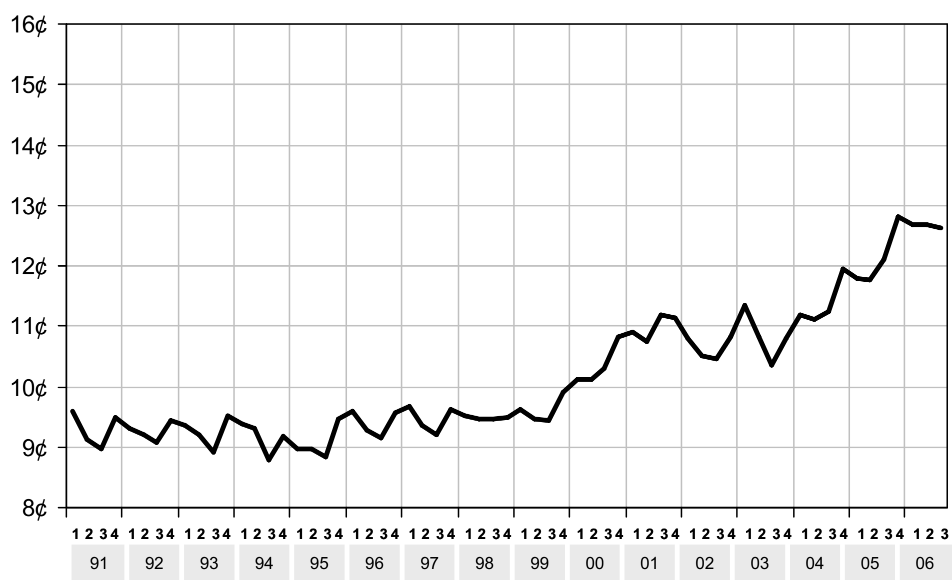
In looking at revenue generation distribution among network carriers, LCCs, and regional carriers, as a percentage of total group revenue, an interesting picture develops. In 2000, network carriers produced 78.0 percent of revenues for the group, or $82 billion, while LCCs produced 6 percent ($6.8 billion) and regional carriers produced 16.0 percent ($16.7 billion). Over the first three quarters of 2006, the same revenue split had changed, with network carriers producing 71.0 percent of revenues ($91.6 billion), LCCs producing 11.0 percent of revenues ($14 billion) and regional carriers producing 18.0 percent ($23.2 billion). This change is important for several reasons. All carrier types have grown their revenues, but growth has been more rapid for LCCs (reflective of their rapid expansion) and regional carriers (reflective of their increased use by network carriers). 2005 revenue was 71.0 percent greater than 2000 revenue for LCCs while regional carrier revenue in 2005 is 35.0 percent greater than in 2000. Network carrier revenue was 3.0 percent greater in 2005 than in 2000.

5.8.2 Airline Costs

While U.S. industry airline revenues grew strongly between 2002 to 2005, airline costs grew even faster. Airlines – both network and LCCs – have been emphasizing efforts for cost reduction. Focus areas include staffing costs – flight crews, ground staff and management, aircraft ownership and maintenance, fuel, distribution, and other support activities.

In considering the unit cost chart shown in Exhibit 5-15, the effects of significant fuel price increases and reduced flying can be seen through the unit cost increase from approximately 11.2 cents in the fourth quarter of 2003 to 12.8 cents at the end of 2005, before a slight reduction occurred in 2006. Cost containment is key to long-term profitability, though increased profits lead to labor requests for greater profit sharing which can then drive cost increases, reducing profits. As carrier expansion slows, it becomes critical to drive increased revenues through higher load factors as well as fare increases.

Exhibit 5-15: U.S. Scheduled Carrier Nominal Unit Operating Costs, (1Q 1990 to 3Q 2006)



Source: U.S. DOT Form 41

Network carriers have made significant progress in their efforts to reduce labor costs. During the third quarter of 2006, labor represented 23.6 percent of total costs versus fuel which represent 26.7 percent, and ownership which represented 8.4 percent. Labor savings have significant potential for increased bottom-line results. At established network and LCCs, seniority, pensions, work rules, and other issues

combine to drive higher costs. For network carriers, these costs are somewhat offset by higher yields as shown in Exhibit 5-16 below. Network carrier contraction often entails layoffs of junior staff, keeping more highly paid staff operating fewer routes. For LCCs, continued expansion spreads these higher costs across ever increasing capacity, keeping unit costs lower, on average, enabling profitability with lower unit revenues.

Exhibit 5-16: Cost Per Available Seat Mile (CASM) for Network and Low Cost Carriers (3Q 2000 and 3Q 2006)

	CASM		RASM	
Carrier	**Q3 2000**	**Q3 2006**	**Q3 2000**	**Q3 2006**
Network Carriers				
Alaska	10.2 ¢	12.5 ¢	11.0 ¢	12.2 ¢
American	10.6 ¢	12.6 ¢	11.7 ¢	12.5 ¢
Continental	11.2 ¢	16.8 ¢	11.9 ¢	15.9 ¢
Delta	9.6 ¢	15.2 ¢	10.9 ¢	16.1 ¢
Northwest	10.5 ¢	15.2 ¢	11.9 ¢	17.1 ¢
United	11.9 ¢	14.3 ¢	11.5 ¢	15.2 ¢
US Airways	14.3 ¢	16.2 ¢	14.2 ¢	17.2 ¢
Average	*11.2 ¢*	*14.7 ¢*	*11.9 ¢*	*15.2 ¢*
Low Cost Carriers				
AirTran	9.6 ¢	9.9 ¢	10.7 ¢	9.8 ¢
Frontier	10.2 ¢	11.2 ¢	13.4 ¢	11.4 ¢
JetBlue	7.8 ¢	7.9 ¢	7.2 ¢	8.3 ¢
Southwest	7.7 ¢	8.7 ¢	9.7 ¢	9.8 ¢
Average	8.8 ¢	9.4 ¢	*10.6 ¢*	*10.9 ¢*

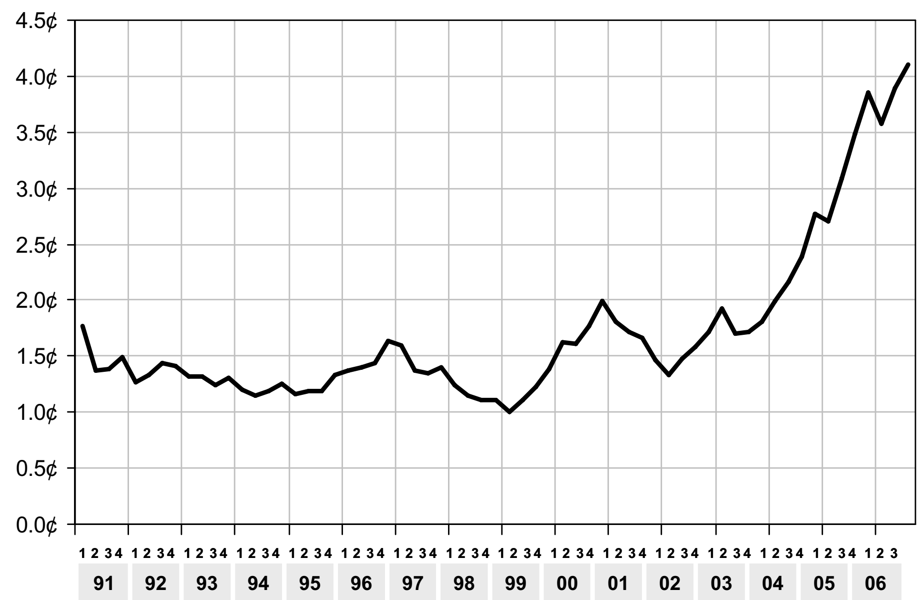
Source: U.S. DOT Form 41

Overall, a tiered cost structure separation of the industry remains, with LCCs having unit costs between 8 and 11 cents and network carriers having unit costs between 12 and 17 cents, non-stage-length adjusted as the analysis focuses on domestic service and does not included regional carriers. Segmentation of unit costs provides an interesting view – summarizing a composite of crew seniority, network structure, overhead cost differences between the two products. It is important to couple this cost structure with revenue generation to relate both parts of the equation as high cost with high revenue and low cost low revenue operations can both be successful (e.g. Four Seasons Hotels vs. Hampton Inns).

Fuel cost per ASM has more than doubled since the end of 2000, rising from 1.9 cents to 4.1 cents per ASM by the 3rd quarter of 2006 (Exhibit 5-17). The increase in fuel prices has dampened the financial recovery underway as the airlines solidified

their positions in the post-9/11 environment. Activities optimizing capacity and pricing as well as cost controls were put in place, but the effect of the fuel price increase has offset a large portion of the progress made. Fuel, as a percentage of costs, has risen from 15.0 percent at the end of 2000 to 27.0 percent by the third quarter of 2006. Over the past few years, fuel hedges have an important factor in U.S. airline competition. Southwest led the industry in this area and many others have developed hedging policies to protect a portion of their fuel requirements from the significant price movements being experienced.

Exhibit 5-17: Fuel Cost Per ASM (1Q 1991 to 3Q 2006)



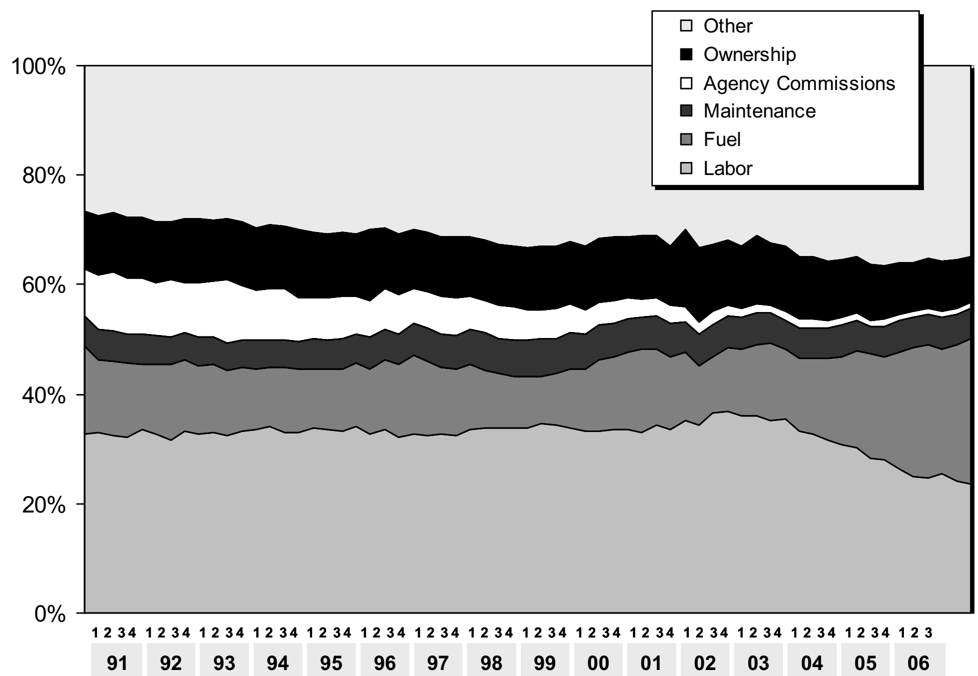
Source: U.S. DOT Form 41

Fare increases have been put in place to recover some of the increased fuel costs, though seat capacity growth lead to discounting which eroded some of the gain toward covering increased fuel costs.

To gain added perspective, Exhibit 5-18 highlights the dramatic rise of fuel as a cost component for the airlines and the relative reduction of other costs elements. Historically, fuel represented approximately 11.0 to 12.0 percent of overall operating costs. Today, as noted, that share represents approximately 27.0 percent of costs for an airline, with labor the second largest cost at approximately 24.0 percent. Fuel and labor far exceed ownership (the aircraft which support the business) which comes in at about 8.0 percent. In order to add perspective, American Airlines reported fuel costs of $1.45 billion for the three months ended December 2006. The airline

reported a profit for that quarter of $17 million. An increase it its fuel costs of 1.0 percent would add $14.5 million in expense, almost eliminating the profit earned. Looking at the third quarter of 2006, which is often the best quarter for many airlines – following the summer traffic levels – to see another view of the impact fuel can have, American spent $1.8 billion on fuel in that quarter and had a net profit of $15 million. To repeat the fourth quarter example, a 1.0 percent increase in fuel would have added $18 million to the carrier's expenses, eliminating the profit earned.

Exhibit 5-18: Fuel Has Become the Largest Cost Component For The Airlines, Surpassing Labor (1Q 1991 through 3Q 2006)



Source: U.S. DOT Form 41

5.9 AIRLINE BANKRUPTCIES AND CONSOLIDATION

The airline industry has weathered significant challenges over the past six years. During this period, several carriers entered and exited bankruptcy – American Trans Air (ATA), Delta Air Lines, United Airlines, US Airways (twice), Independence Air was created and liquidated. Northwest Airlines is the lone carrier serving Logan that remains in bankruptcy.

Delta Air Lines, which emerged from bankruptcy on April 30, 2007, accounts for approximately 19.0 percent of passenger activity at Logan and is the largest carrier in

terms of passengers. Northwest Airlines accounts for 4.0 percent of Logan's passengers and is expected to emerge as reorganized company in mid-2007.

Economic expansion and contraction, fuel price fluctuations, competitive actions, and global political events are some of the factors that continuously and significantly impact the industry's financial performance.

During the past six years speculation that significant industry consolidation would occur was high. In the end, only one consolidation occurred, with America West acquiring US Airways and combining the two carriers under the US Airways name, removing 10 percent of the combined carriers' capacity. Other consolidation activities – rumored or initiated - included United acquiring Continental, US Airways acquiring Delta, and AirTran acquiring Midwest. The United and US Airways activities did not materialize while AirTran continues its pursuit of Midwest. In the low cost carrier space, Frontier, Spirit, or ATA have been rumored as potential acquisition targets. Industry leaders now believe that consolidation activities may not occur until the next period of industry economic challenge.

For Logan, given its strong position as an O&D market, future industry consolidation is not anticipated to have a detrimental long-term effect. Initially, service disruption(s) could be experienced, but strong local demand and continued passenger growth would drive continued services by combined entities or new services by carriers providing eliminated service. Historically, passenger enplanements have grown from 14.7 million in 1980 to 22.8 million in 1990 to 27.6 million in 2000, reaching 27.6 million in 2006. Over this 26-year period, many carriers have discontinued operations at the Airport (e.g. Eastern, TWA, Pan AM, New York Air, Braniff, Peoples Express), but passenger traffic has grown. This strong passenger demand will be met though carrier names and hubs may change.

6 Massport's Ability to Ensure Efficient Gate Utilization

6.1 Introduction

The opening of Delta Air Lines' Terminal A on March 16, 2005 markedly changed the face of Logan Airport. With the new Terminal A, the Airport now has a total of 98 contact gates as compared to 90 previously. The Terminal A redevelopment project was facilitated in part by the downturn in passenger traffic and aircraft operations between CY 2001 and CY 2002. However, as Airport growth was expected to continue, the new terminal and gates were deemed necessary to support the long-term growth in passengers and aircraft operations while also helping to reduce landside congestion. The additional capacity was instrumental in allowing the Airport to attract jetBlue, which has become a major carrier at Logan. Additionally, the new Terminal A facilities have freed up terminal space elsewhere – facilitating a reallocation of carriers (e.g. JetBlue's move to Terminal C) that will allow Massport to compete for additional carriers, whether network, low cost, or international, something that it has been challenged in doing in the past.

Over the past decade, Massport implemented several policies and tools that provide flexibility to effectively allocate the Airport's facilities. These include an airport-wide Preferential Gate Use Policy, the use of short-term leases, and the establishment of innovative gate recapture and forced sublet provisions that have been incorporated into all new long-term leases at the Airport. The effectiveness of these policies, and the strength of the Logan Airport market, was recently put to the test with the bankruptcy filing and subsequent restructuring of Delta Air Lines. During its bankruptcy, Delta sought to reduce its operating expenses. One of the major operating expenses at Logan Airport for Delta was the terminal lease which supported Special Facility Bond Debt used to finance the Terminal A project. Over the course of late 2005 and 2006, Delta entered into substantive negotiations with Massport and bondholders to amend the terms of the Terminal A lease agreement. The subsequent settlement agreement which was presented to the bankruptcy court in January 2007, and approved in March 2007, resulted in Delta reducing the amount of leased space within the terminal by approximately one third, reducing the number of gates which it controls from 22 to 14, and reducing the term of the lease, in exchange for certain rental payments. Massport now has the responsibility to use reasonable

efforts to re-let the gates vacated by Delta. In March 2007, Massport announced that it "fully expect(s) the terminal to be rented out" within several months.[36] The move by Massport to re-let most, if not all, of the abandoned Delta gates within a six month period demonstrates the effectiveness of the re-letting provision in Massport's lease agreement with the carriers, and also the desirability of gates and terminal space at Logan Airport.

This section summarizes the current allocation of gates at Logan and describes the specific terms of certain airline lease arrangements that allow Massport to exert control over underutilized facilities, ensuring optimum utilization of the Airport's facilities. This analysis is intended to be informative and does not represent a legal opinion or complete review of Massport's leases.

6.2 GATE POSITIONS AT LOGAN AIRPORT

6.2.1 Logan Airport Terminal Gate Configurations

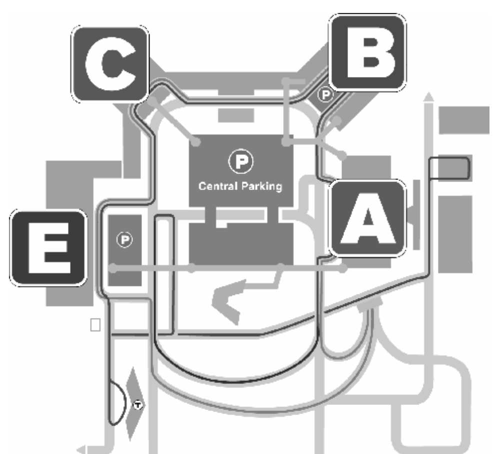
Having completed the construction of Terminal A, Logan Airport has five terminals which comprise 98 contact gates. The construction of Terminal A provided the Airport with an overall 9 percent increase in gate capacity, moving from 90 to 98 gates (the previous Terminal A had 14 gates).

Exhibit 6-1: Logan Airport Terminal Layout and Contact Gate Positions

98 Total Gates

Terminal C	
Carrier	**Gates**
AirTran	3
Continental	5
JetBlue	7
Midwest	1
United	10
Common	1
Total	27

Terminal E	
Carrier	**Gates**
Northwest	4
Common	9
Total	13



Terminal B	
Carrier	**Gates**
American	14
US Airways	20
Common	2
Total	36

Terminal A	
Carrier	**Gates**
Delta	14
Common	8
Total	22

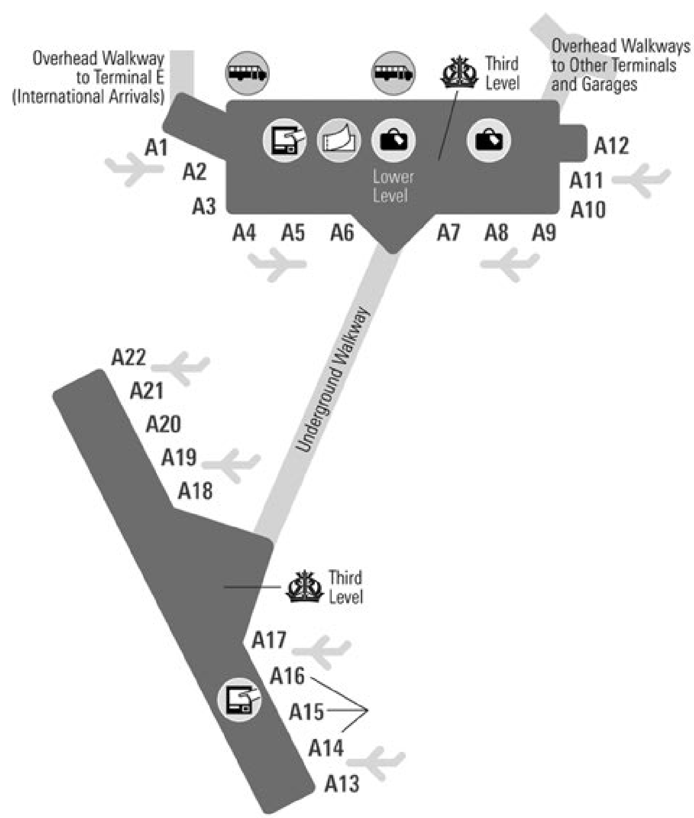
Source: Massport

[36] The Boston Globe, March 6, 2007

6.2.2 Logan Airport Terminals

Delta Air Lines opened the redeveloped Terminal A on March 16, 2005. The new $400 million state-of-the-art terminal has almost 670,000 square feet of lobby and gate space, divided between a twelve-gate main terminal building and a ten-gate satellite terminal. The new Terminal A was designed in the post 9/11 era and allows for rapid processing of passengers through the security screening areas and improved placement of food and retail concessions to maximize commercial revenues. The terminal was originally constructed for the exclusive use of Delta Air Lines, including Delta, the Delta Shuttle, and the Delta Connection. Delta's SkyTeam partners continue to operate from their existing locations; furthermore, because of the lack of Federal Inspection Service facilities, Terminal A will not be able to receive international flights.

Exhibit 6-2: The New Terminal A at Logan Airport



Source: Boston Globe Supplement, March 9, 2005

In July 2006, Massport and Delta Air Lines reached an agreement restructuring Delta's Terminal A Lease. Through the bankruptcy process it became clear that Delta would not require the amount of space leased in Terminal A and the carrier desired to reduce its going-forward obligations. In an agreement with Massport, the carrier has reduced the amount of square footage leased to 180,086 and reduced the number of gates leased to 14, two of which have dual position gates, providing 16 aircraft boarding locations. The carrier returned six contact gates and three regional jet aircraft parking positions to Massport for lease to other airlines.

Exhibit 6-3: Logan Airport Airline Operators by Terminal

Terminal Building	Leaseholders	Other Carriers
A	Delta	Delta Shuttle
B	American US Airways	Air Canada Alaska Spirit
C	Continental Cape Air* JetBlue Midwest United	
D	AirTran	
E	Northwest	Aer Lingus Aeromexico Air France Alitalia American ** British Airways Cayman Airways Finnair flyglobespan Iberia Icelandair JetBlue ** KLM Lacsa Lufthansa SATA SWISS TACA TACV Cabo Verde US Airways** Virgin Atlantic

* Cape Air provides ramp operations only from its gate in Terminal C. ** International arrivals only.

Source: Massport.

Terminal B is the largest terminal at Logan with 36 contact gates, or 37.0 percent of total airport gates (based upon 98 gates). US Airways currently leases 20 contact gates at Terminal B, the largest block of gates leased to a single airline at Logan. All of US Airways' services, including the US Airways Shuttle, operate from Terminal B. US Airways currently subleases five of its Terminal B gates to other airlines; one to Alaska, one to Spirit Airlines, and three to Air Canada. American leases 14 contact gates in Terminal B. Several of the gates are utilized for American Eagle operations. The remaining two Terminal B gates are Common contact gates.

Terminal C is the second largest terminal at Logan with 27 contact gates. The leaseholders in Terminal C are AirTran, Continental, JetBlue, Midwest, and United. United is the principal leaseholder in Terminal C with ten gates, or 37.0 percent, of the terminal gates. United subleases one of its gates to AirTran for use in addition to the three gates leased directly by AirTran from Massport. JetBlue is currently the second largest gate holder at Terminal C, leasing eight gates which will rise to 11 by November 1, 2008. Continental is currently operating from five leased gates in Terminal C. Midwest leases one gate in Terminal C and Cape Air utilizes a Common gate, held by Massport, in the terminal.

Terminal E, which primarily handles international arriving flights that require federal inspection services, has a total of 13 gates. Four of the Terminal E gates are leased by Northwest Airlines and used for domestic services while its international service to Amsterdam is conducted from a Common gate in the terminal. The remaining Common Terminal E gates are used for select domestic carrier international arrivals and by most foreign carriers for arrivals and departures.

6.3 AIRPORT-WIDE PREFERENTIAL GATE USE POLICY

Massport's preferential use policy is applicable to all gates at Logan Airport. Under conditions specified in the policy, Massport may schedule arrivals and departures at a gate by carriers other than the tenant for any period that the tenant is not using the gate. The tenant carrier must permit the carrier being accommodated under the policy to use the holdroom, loading bridge, baggage claim, and other related facilities required for the functional use of the gate, and may assess reasonable fees for such use. If a tenant carrier fails to accommodate a carrier under the terms of the preferential use policy, then Massport may convert the gate to a common gate.

6.4 GATE RECAPTURE AND FORCED SUBLET PROVISIONS

Massport prefers to lease space at the Airport on a short-term basis, which allows Massport the requisite flexibility to ensure the Airport's limited gate resources are optimally used. However, Massport has granted long-term leases to carriers that have made significant capital investments in terminal facilities. Carriers that hold long-term leases with Massport include American, Delta, JetBlue, Northwest, and US Airways. In addition, Massport's lease with United is for one-year, with provisions for annual extensions.

In order to ensure maximum utilization of the Airport's gates, Massport's most recent long-term lease agreements negotiated with American, US Airways, Delta and jetBlue, as well as the short-term lease with United, contain language that allow Massport to regain control of leased gates should the airline tenants fail to meet certain utilization thresholds. These gate recapture provisions allow Massport to maximize the Airport's gate utilization by redistributing gates from carriers shrinking their operations at Logan to those wanting to expand. These leases also contain provisions that allow Massport to require the airlines to sublease a certain number of gates. Over time, Massport has been successful in securing more stringent gate recapture and forced sublet provisions.

Massport's lease with Northwest does not contain recapture or forced sublet provisions. The lease with Northwest was originally for six gates. However, after Northwest entered a code sharing agreement with Delta and Continental in 2003, they were forced by the DOT to give up two gates.

The specific recapture and forced sublet provisions contained in the American, US Airways, Delta, United, and JetBlue leases are described in the following sections.

6.4.1 American Airlines

American Airlines entered into a lease agreement with Massport for nine gates in Terminal B, which expires in 2010 and may be extended to 2015 at Massport's option. American also leases five additional gates in Terminal B on a month-to-month basis. The agreement contains certain provisions that allow Massport to recapture gates and related terminal and baggage space if American's average gate utilization falls below a certain "Utilization Threshold." American's average gate utilization is based on the number of jet aircraft operations per gate for a specified time period. An aircraft "operation" is defined as an aircraft departure or arrival. The

"Utilization Threshold" is based on the "Airport's Domestic Gate Utilization," which is calculated as a rolling six-month average of domestic jet operations.

American's Utilization Threshold is 75.0 percent of the Airport's Domestic Gate Utilization, which is the average number of domestic jet operations per gate for all carriers excluding American. If American's average utilization falls below the Utilization Threshold, Massport may recapture underutilized gates and related terminal space and sublet them to other carriers.

Massport's ability to recapture underutilized gates is subject to a "Cure Period" during which American can prevent the recapture by increasing its utilization to certain capacity utilization thresholds.

Exhibit 6-4: Summary of Gate Recapture Provisions in American Airlines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes American Airlines ■ Calculated as a rolling 6-month average
American Airlines Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes American Airlines and related carriers, except for commuter airlines and subtenants ■ Calculated as a rolling 6-month average
Utilization Threshold	■ 75 percent of Airport Domestic Gate Utilization ■ Waived if American's average jet passenger throughput per gate is equal to or higher than the average jet passenger throughput per domestic gate for all other carriers
Cure Period	■ 12 months, subject to a 12-month extension ■ 60 days if American intends to cease operations at Logan or enters liquidation
Recaptured Gates/Forced Sublet	■ Number of gates recaptured so that American Airlines' Gate Utilization would equal 85 percent of Airport Domestic Gate Utilization ■ Massport can sublet recaptured gates and related terminal space for proportional rent or, as of September 1, 2006, Massport can permanently recapture gates and related terminal space ■ In the event of a sublet, sublease terms limited to not more than one year and American can regain possession of gates by meeting certain utilization standards

Source: Lease between Massport and American Airlines, Inc., dated March 1, 1997.

6.4.2 US Airways

The lease agreement between Massport and US Airways, which expires September 30, 2023, provides for the recapture of gates and related terminal and baggage space in Terminal B if US Airways' average gate utilization falls below the specified Utilization Threshold. US Airways' average gate utilization is based on the number of operations per gate for jet aircraft. The Utilization Threshold is based on the Airport's Domestic Gate Average, which is calculated as a rolling three-month average for domestic jet operations for the first seven gates and a rolling six-month average of domestic jet operations for the remaining 13 gates.

The Utilization Threshold for seven gates in the South Wing Premises ("SWP") is 80.0 percent of the Airport's Domestic Gate Average, excluding US Airways, and will increase to 100.0 percent in 2010. For the remaining 13 US Airways gates in Terminal B, the Utilization Threshold is 75.0 percent of the Airport's Domestic Gate Average excluding US Airways. Thus, Massport may recapture underutilized gates if US Airways average jet operations per gate falls below either of these Utilization Thresholds.

The US Airways lease allows for a 90-day Cure Period for the seven SWP gates and a 12-month cure period for the remaining 13 gates. During the Cure Period US Airways can increase its utilization to certain thresholds to prevent recapture. The specific provisions in the US Airways lease agreement are summarized below.

Exhibit 6-5: Summary of Gate Recapture Provisions in US Airways Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes US Airways ■ Calculated as a rolling 3-month average for 7 SWP gates ■ Calculated as a rolling 6-month average for remaining 13 gates
US Airways Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes US Airways, US Airways Group-owned airlines, and any US Airways code share partner, except for commuter airlines or subtenants ■ Calculated as – Rolling 3-month average for 7 SWP gates – Rolling 6-month average for remaining 13 gates
Utilization Threshold	■ 80 percent of Airport Domestic Gate Utilization for 7 gates in SWP, increasing to 100 percent in 2010 ■ 75 percent of Airport Domestic Gate Utilization for 13 gates ■ Waived if US Airways' average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers
Cure Period	■ 90 days for 7 SWP gates ■ 12 months, subject to a 12-month extension, for 13 gates ■ 60 days if US Airways intends to cease Logan operations or enters liquidation
Recaptured Gates/Sublet	■ For 7 SWP gates: Number of gates recaptured so that US Airways Gate Utilization for 90 days prior to recapture notice would equal 100 percent of Airport Domestic Gate Utilization ■ For 13 gates: Number of gates recaptured so that US Airways Gate Utilization for 90 days prior to recapture notice would equal 85 percent of Airport Domestic Gate Utilization ■ As of September 1, 2006, Massport can permanently recapture gates through defeasance of proportional amount of US Airways' bonds and payment of certain unamortized costs to US Airways or, at any time, Massport may sublet recaptured gates for proportional rent ■ In the event of a sublet, sublease terms limited to not more than one year and US Airways can regain possession of gates by meeting certain utilization standards
Forced Sublet	■ Massport may force US Airways to sublet up to 2 gates to other airline tenants or new entrants

Source: Lease between Massport and US Airways, Inc., dated December 19, 1996 and Amendment No. 1, dated October 1, 1999.

6.4.3 Delta Air Lines

The Amended and Restated Terminal A Lease agreement between Delta Air Lines and Massport contains provisions that allow Massport to recapture underutilized gates in Terminal A. The term of the lease began on August 16, 2001, was amended and restated as of July 1, 2006, and will expire on June 30, 2016, unless earlier terminated.

The Utilization Threshold for Delta is based upon meeting or exceeding 100.0% of the Airports' Airport Domestic Gate Utilization measure. The amended lease has provisions for a 90 day cure period and also allows Massport to permanently remove terminal space should the carrier not exceed the utilization threshold set. The lease also enables Massport to sublet up to two gates to subtenants for periods of no less than six months nor more than 24 months.

Exhibit 6-6: Summary of Gate Recapture Provisions in Delta Air Lines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Regional jets may or may not be included depending upon the Massport policy at the time, provided that a parallel comparison is made ■ Domestic gates ■ Excludes Delta Air Lines ■ Calculated as rolling 90-day average
Delta Gate Utilization	■ Average Daily Jet Operations per Gate, measured on basis of 14 gates ■ Includes Delta and its affiliated airlines operating in Terminal A, and at Delta's election, jet operations of forced subtenants in Terminal A ■ Excludes non-jet aircraft ■ Includes Regional Jet aircraft only to the extent permitted by Airport-wide policy ■ Calculated as rolling 3-month average
Utilization Threshold	■ 100 percent of Airport Domestic Gate Utilization ■ Waived if Delta's average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers.
Cure Period	■ 90 days from Massport notice
Recaptured Gates	■ Massport may recapture the appropriate number of gates from Delta such that Delta's gate utilization in the 90 days prior to the final recapture notice would have been in excess of 100 percent of the Airport Domestic Gate Average for the period ■ Upon recapture, the Lease will be deemed to have been amended to delete the premises recaptured
Forced Sublet	■ Massport may require Delta to sublet up to 2 gates to other airline tenants or new entrants for a period of at least 6 months but no more than 24 months

Source: Amended and Restated Lease between Massport and Delta Air Lines, Inc., dated as of July 1, 2006

6.4.4 United Airlines

Massport entered into a lease with United Airlines on December 1, 1998 for ten gates located on Pier B of Terminal C. The term of the lease is for one year with one year extensions, with the provision that if Massport does not extend the lease for a total of at least 15 years, Massport would be required to purchase the unamortized value of a portion of the improvements made by United in Terminal C. The lease agreement with United contains recapture provisions that allow Massport to recapture gates if United's average jet operations per gate falls below 85.0 percent of the Airport's Domestic Gate Average.

Exhibit 6-7: Summary of Gate Recapture Provisions in United Airlines Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations ■ Domestic gates ■ Excludes United Airlines ■ Calculated as a rolling 3-month average
United Gate Utilization	■ Average Daily Jet Operations per Gate ■ Includes United and affiliated airlines ■ Excludes non-jet aircraft and subtenants ■ Calculated as a rolling 3-month average
Utilization Threshold	■ 85 percent of Airport Domestic Gate Utilization
Cure Period	■ 90 days
Recaptured Gates	■ Number of gates recaptured so that United's Gate Utilization would equal 100 percent of Airport Domestic Gate Utilization ■ Lease terminates as to recaptured gates

Source: Lease between Massport and United Airlines, Inc., dated December 1, 1998.

6.4.5 JetBlue

JetBlue entered into a lease agreement with Massport on January 20, 2005 to occupy portions of Terminal C. The term of the lease is five years (until April 30, 2010), with an additional 20 automatic one-year extensions. Initially, JetBlue will occupy five gates. Commencing May 1, 2006 the carrier will take one additional gate every six months, until the airline occupies a total of 11 gates (on November 1, 2008). After this time, JetBlue will lease all gates in Pier C of Terminal C. JetBlue is to invest $9 million for renovations and improvements in the leased premises.

The lease agreement between JetBlue and Massport contains provisions that allow Massport to recapture underutilized gates at Terminal C. Until fully occupied in 2008, there is no provision for gate recapture by Massport. However, once JetBlue reaches 11 gates, the carrier must meet or exceed a quarterly test of average domestic gate utilization at the Airport.

Exhibit 6-8: Summary of Gate Recapture Provisions in Proposed JetBlue Lease

Airport Domestic Gate Utilization	■ Daily jet aircraft operations (≥100 seats, but including the Embraer 190 aircraft) ■ Domestic gates ■ Excludes JetBlue Airways ■ Calculated as rolling 3-month average
JetBlue Gate Utilization	■ Average Daily Jet Operations per Gate, measured on basis of 11 gates ■ Excludes non-jet aircraft ■ Includes Regional Jet aircraft only to the extent permitted by Airport-wide policy ■ Calculated as rolling 3-month average
Utilization Threshold	■ Until November 1, 2008: No Recapture ■ After November 1, 2008: 100 percent of Airport Domestic Gate Utilization ■ Waived if JetBlue's average passenger throughput per gate is equal to or higher than the average passenger throughput per domestic gate for all other carriers.
Cure Period	■ 90 days from Massport notice ■ JetBlue must retain Airport Domestic Gate Utilization for a period of at least 1 year from notice of default
Recaptured Gates	■ Number of gates recaptured so that JetBlue's Gate Utilization would equal 100 percent of Airport Domestic Gate Utilization ■ Lease terminates as to recaptured gates ■ Massport will reimburse JetBlue for the unamortized portion of investment made in the recaptured gates

Source: Lease between Massport and JetBlue Airways, dated January 20, 2005.

6.5 PREVIOUS EXPERIENCE RECAPTURING UNDERUTILIZED GATES

Historical experience at Logan Airport demonstrates that gate space abandoned, as the result of a major carrier retrenchment, would be rapidly re-absorbed by other airlines. For many years Eastern Airlines operated from the previous Terminal A. The carrier held a long-term lease providing preferential use of the 14 jet gates. When Eastern sharply reduced its service at the Airport after filing for Chapter 11 bankruptcy protection in March 1989, other airlines soon sublet many of its unused gates. The Eastern Shuttle, sold to Trump Shuttle, Inc., continued to operate from Terminal A. Continental Airlines, affiliated with Eastern under Texas Air, transferred its activity from Terminal B to Terminal A. Other small carriers and regional airlines also moved to occupy the empty gate space.

Massport has historically assumed an active role in ensuring liquidity in underutilized capacity. When Eastern Airlines filed for bankruptcy, Massport filed a legal petition to cancel the Eastern lease and gain possession of Terminal A. During the next 18 months, Massport worked with Eastern Airlines to bring other carriers in to occupy the gates at the terminal. In addition, Massport entered into negotiations with Eastern to buy out the remaining two and one-half years of its lease. In April 1991, Massport successfully consummated an agreement with Eastern, and took over the operation and maintenance of Terminal A.

In 1997, Massport also successfully used lease language to regain control of underutilized gates from TWA.

In 2003, Northwest Airlines gave up two of its gates to satisfy the U.S. DOT’s request that they give up gates at their hub airports and at Boston following its marketing agreement with Delta Air Lines and Continental Airlines. At the time, Northwest had the lowest average gate utilization, with 2.5 turns per day. The Airport average was 4.2 turns a day. However, Northwest's lease, which dates back to the 1980s, had no gate-use requirement. Northwest now utilizes four gates in Terminal E and utilizes one Common gate in Terminal E for its Amsterdam service.

7 REVIEW OF MASSPORT ACTIVITY FORECASTS

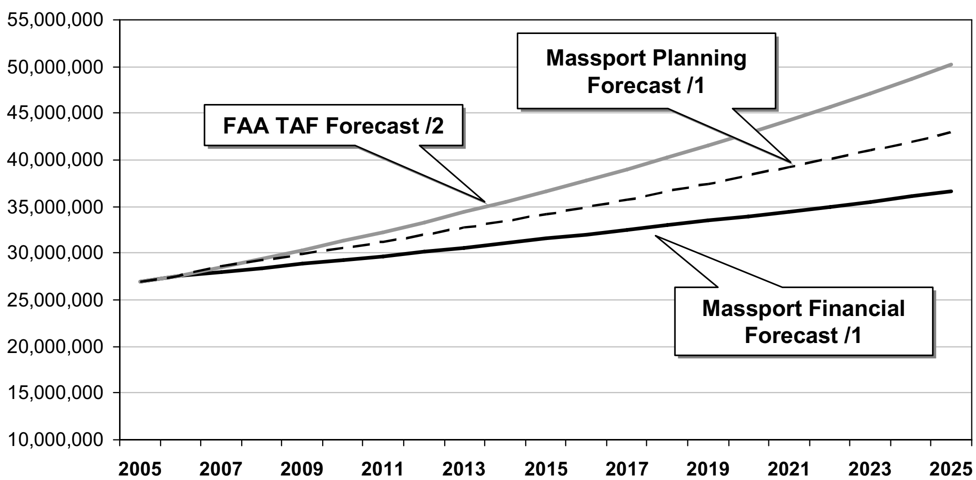
7.1 INTRODUCTION

Massport utilizes two types of forecasts to manage the future requirements of the Airport:

- A Planning Forecast, and
- A Financial Forecast

The planning forecast is used to anticipate future landside and airside infrastructure requirements and to estimate the potential environmental impacts of future Airport activity. The financial forecast, which is normally more conservative than the planning forecast, is used for financial planning purposes. This section summarizes and reviews Massport's existing forecasts for Logan Airport and the FAA's most recent projections for the Airport. Historical and forecast passenger levels for Logan Airport are illustrated in Exhibit 7-1 and summarized in Exhibit 7-2.

Exhibit 7-1: Boston Logan Passengers, (2005-2006 Actual, 2007-2025 Forecast)



Notes:
\1 Massport Financial and Massport Planning forecasts are for calendar years ending December 31.
\2 FAA Preliminary Terminal Area Forecast ("TAF") is for Federal fiscal years ending September 30.
Sources: Massport and FAA, Terminal Area Forecasts, March 2007.

Exhibit 7-2: Boston Logan Passengers (2005-2006 Actual, 2007-2025 Forecast)

Year	Massport Financial \1	Annual %. Chng	Massport Planning \1	Annual %. Chng	FAA TAF \2	Annual %. Chng
Actual\3						
2005	26,934,582	3.5%	26,934,582	3.5%	26,934,582	3.5%
2006	27,581,684	2.4%	27,581,684	2.4%	27,581,684	2.4%
Forecast						
2007	27,995,409	1.5%	28,464,298	3.2%	28,596,696	3.7%
2008	28,415,340	1.5%	29,375,155	3.2%	29,240,232	2.3%
2009	28,841,571	1.5%	30,315,160	3.2%	29,899,410	2.3%
2010	29,274,194	1.5%	31,285,246	3.2%	30,574,656	2.3%
2011	29,713,307	1.5%	32,286,373	3.2%	31,266,394	2.3%
2012	30,159,007	1.5%	33,319,537	3.2%	31,975,068	2.3%
2013	30,611,392	1.5%	34,385,763	3.2%	32,701,128	2.3%
2014	31,070,563	1.5%	35,486,107	3.2%	33,445,042	2.3%
2015	31,536,621	1.5%	36,621,662	3.2%	34,207,292	2.3%
2016	32,009,670	1.5%	37,793,556	3.2%	34,988,368	2.3%
2017	32,489,815	1.5%	39,002,949	3.2%	35,788,780	2.3%
2018	32,977,163	1.5%	40,251,044	3.2%	36,609,060	2.3%
2019	33,471,820	1.5%	41,539,077	3.2%	37,449,736	2.3%
2020	33,973,897	1.5%	42,868,328	3.2%	38,311,364	2.3%
2021	34,483,506	1.5%	44,240,114	3.2%	39,194,524	2.3%
2022	35,000,758	1.5%	45,655,798	3.2%	40,099,800	2.3%
2023	35,525,770	1.5%	47,116,783	3.2%	41,027,796	2.3%
2024	36,058,656	1.5%	48,624,520	3.2%	41,979,144	2.3%
2025	36,599,536	1.5%	50,180,505	3.2%	42,954,480	2.3%
Average Annual Growth						
2007-2025		**1.5%**		**3.2%**		**2.3%**

Notes:

\1 Massport Financial and Massport Planning forecasts are for calendar years ending December 31.

\2 FAA Preliminary TAF forecast is for Federal fiscal years ending September 30.

Sources: Massport and FAA, Terminal Area Forecasts, March 2007.

7.2 MASSPORT PLANNING FORECASTS

Massport uses long-term forecasts of Logan Airport activity to plan for facilities, operations, and environmental activities. Since airport activity has fluctuated over the past seven years – with economic cycles, the events of 9/11, the growth of low cost carrier service, and network carrier restructuring, Massport has updated its long-term forecasts several times during this period to take into account significant changes.

In 1990, Logan's 20-year forecast included two scenarios with the Airport achieving 37.5 million passengers in the Low case and 45 million in the High case by 2020. Since that time, Massport has revised its long term planning forecast to reflect changes in the Airport's planning and environmental initiatives. The latest updates

were calculated for this report and develop a forecast from the Airport's reported 2006 data. The 2006 data is reflective of the Airport's recovery and continued long-term growth, with the planning forecast projecting that the Airport will reach 50 million passengers in 2025.

7.2.1 Planning Forecast Assumptions

Aviation demand, in general, is a function of the local economy, the national and world economies, and the condition of the aviation industry. Massport's Planning forecast is based on the assumption of increasing air travel demand for the Boston Service Area and surrounding region. Specific assumptions are summarized below:

- The economies of Massachusetts and New England will continue to experience long-term, positive population, real income and employment growth.
- The national and local economies will encounter and recover from periodic economic challenges and sustain moderate growth over the long-term.
- The Airport will continue to function primarily as an origin-destination airport as the percentage of O&D passengers has remained relatively constant. Potential airline consolidation will not substantially change the frequencies and air service patterns at the Airport as combined or new carriers would be expected to meet growing demand.
- International airline traffic at the Airport and for the industry as a whole will continue to grow faster than domestic traffic.
- The Airport will continue to operate on an unconstrained basis over the planning horizon, whereby on an hourly basis the runways and taxiways will be able to accommodate all of the projected hourly operations.

7.3 MASSPORT FINANCIAL FORECAST

Massport's Financial forecast is based on actual passenger traffic for CY 2006. The Financial forecast is revised on an annual basis and assumes future growth on an average of 1.5 percent annually. With the long-term growth assumption of 1.5 percent per year, the Airport would reach a level of only 36.6 million passengers by CY 2025.

7.4 FAA AVIATION FORECASTS

The FAA has developed extensive aviation forecasting models that are used to projects passenger and operations growth for the U.S. airline industry and for individual airports. The FAA develops its national forecast annually. In March 2007, the FAA released its latest industry forecast – FAA Aerospace Forecasts, Fiscal Years 2007 – 2020 (the U.S. Federal Government fiscal year begins October 1).

7.4.1 FAA U.S. Industry Projections

In the current environment of high oil prices and low cost carrier competition, network carriers continue to adjust their business model by reallocating flying to regional affiliates, reducing capacity, and shifting aircraft to international markets.

Over the short term, from Federal FY 2006 to Federal FY 2010, the FAA predicts that total U.S. scheduled carrier enplanements (domestic and international) will increase at an average annual rate of 3.5 percent. Over the longer term, from Federal FY 2010 to Federal FY 2020, the FAA predicts that total U.S. scheduled carrier enplanements will increase at a slightly higher average annual rate of 3.6 percent.

The FAA industry forecast predicts that over the forecast period, international passenger traffic will grow at 4.8 percent, 1.4 percent faster than the domestic market, which is forecast to increase by 3.4 percent per year. Within the international environment, the Asian/Pacific market is projected to grow the fastest at 6.7 percent, followed by the Latin American market at 4.7 percent and the Atlantic market at 3.7 percent. The FAA projects that regional airline passengers will increase, at a slower rate than domestic mainline carrier passengers. This is predominantly due to a decrease in the 'feeder" effect provided by network carriers, as the carriers continue to remove capacity from their domestic systems, shifting focus to higher-yield international flying. While demand for 70-90 seat aircraft continues to increase, the FAA expects that the number of 50 seat regional jets in service will continue to decrease. Over the forecast horizon, regional airline passengers are expected to grow at an average annual rate of 3.1 percent, compared to 3.7 percent annual growth for mainline carriers in their domestic systems. The FAA forecast assumptions also include a modest 1.3 percent annual fuel price increase over the forecast period.

Uncertainties not addressed by the FAA forecast include: (1) a stall in the economy as it is projected that growth would remain strong with only a slight decline in the rate of growth; (2) fuel price shocks given the highly volatile fuel market of the

recent past which could cause a significant impact; and (3) potential long-term impacts of heightened security measures and passenger processing times on business travel, especially in short-haul markets. The forecast assumes that there will not be a successful terrorist attack against the U.S. or world aviation and that there will not be any further bankruptcies, liquidations, or consolidations in the airline industry.

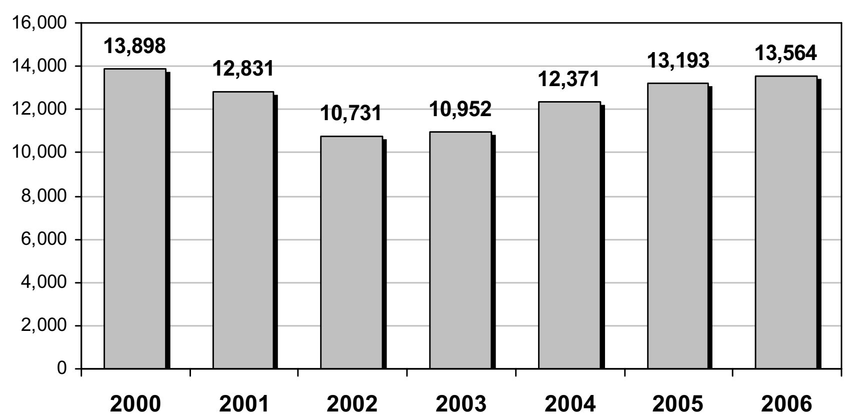
7.4.2 FAA Terminal Area Forecasts for Logan

After completing its industry level projections, the FAA translates the national forecast into airport level forecasts. The FAA's most recent TAF for fiscal years 2006-2025 was released in March 2007 and has been utilized in this report. The March 2007 TAF covers the period from 2006 to 2025. According to the report, Logan's passenger traffic recovered to the level it had reached prior to the events of 9/11 in 2006. Over the long-term forecast period (2006 to 2025), the TAF projects average annual passenger growth of 2.3 percent at Logan.

7.5 SH&E REVIEW OF MASSPORT FORECASTS

SH&E believes that the Massport Financial Forecast and the Massport Planning Forecast represent a reasonable range of future activity at the Airport. The Financial Forecast, which assumes a long-term average growth rate of 1.5 percent, is conservative compared to the Airport's actual year-over-year growth rates of 14.6 percent, 3.5 percent, and 2.4 percent for the 2004, 2005, and 2006 years, respectively (Exhibit 7-3).

Exhibit 7-3: Total Passenger Enplanements at Logan Airport (In Thousands)



Source: FAA Terminal Area Forecast Summary

As explained earlier in this report, the airline industry contraction after 2001 was severe and caused a significant decline in enplaned passengers at most Large Hub U.S. airports. The high level of growth experienced by Logan and other airports in 2004 was partially due to recovering passenger volumes from 9/11, but also due to industry expansion of seat capacity and declining yields. However, these actions coupled with rising fuel prices were not sustainable over the long term, and created large losses for the airlines, so the 2004 expansion was followed by another round of industry contraction. The restructuring of the U.S. airline industry, through bankruptcy and removal of capacity and fare increases, resulted in a slowing of enplanement growth in 2004 and 2005, followed by an absolute decline in passenger enplanements in 2006. Over the past three years, Logan Airport has been less affected by industry restructuring than the U.S. airport industry as a whole. This performance is largely a reflection of the strong O&D nature of the Airport and the underlying market strength of the Boston Service Area.

Also noted in this report, 2006 has been a highly unusual year. GDP increased, yet nationwide enplanements declined, a condition that is not expected to continue. Over the near term, SH&E believes that the industry has entered a period of stabilization in which continued moderate growth is anticipated. We believe that over this period, because of the strong market characteristics of the Boston Service Area, Logan will continue to outperform the national industry.

In reviewing the Massport Planning Forecast, its long-term projected growth rate is 3.2 percent per year, a level higher than the growth rate in 2006, though lower than the growth rate of 3.5 percent in 2005. As growth during the period between 2000 and 2006 exhibited significant volatility, a longer-term view based upon those years would not be appropriate. In reviewing growth from 1990 to 2000 and from 1995 to 2000, the Airport's average growth rates were 1.9 percent and 2.8 percent, respectively. SH&E views the Planning Forecast as a potential high growth scenario, which is appropriate for facility planning and environmental impact analysis.

SH&E expects that over the short-term the Airport will achieve average annual passenger growth consistent with its 2006 performance. Over the long-term horizon, SH&E expects that passenger growth at Logan will moderate and will remain below the national average, reflecting Boston's maturity as an air travel market. In SH&E's opinion, over the long-term, a reasonable forecast of future passenger activity at Logan would be bounded by Massport's Financial and Planning forecasts.

7.5.1 Forecast Risks

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. While the Massport forecasts are based on historical data and future assumptions that SH&E believes are reasonable, some of the underlying assumptions that are detailed explicitly or implicitly may not materialize due to unforeseen events or circumstances. The main uncertainties to the forecasts are:

- Increasing fuel prices resulting in a significant increased expenditures for the industry and their potential impact on the global economy;
- Increased threats of terrorism and its impact on the traveling public;
- Short-term service disruptions at the Airport due to further airline restructuring activities (liquidation events or consolidation); and
- Long-term changes in air travel propensities.

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May 17, 2007

Mr. Thomas J. Kinton, Jr.
Chief Executive Officer and Executive Director
Massachusetts Port Authority
One Harborside Drive
Suite 200S
East Boston, Massachusetts 02128

Re: Review of PFC Revenue Forecasts, Massachusetts Port Authority, PFC Revenue Bonds, Series 2007-B and
PFC Revenue Refunding Bonds, Series 2007-D

Dear Mr. Kinton:

Jacobs Consultancy is pleased to submit this review of passenger facility charge (PFC) revenue forecasts in connection with the issuance of PFC Revenue Bonds, Series 2007-B and PFC Revenue Refunding Bonds, Series 2007-D (collectively, the Series 2007 PFC Bonds), by the Massachusetts Port Authority. The Authority is a multipurpose agency that owns and operates, among other facilities, Boston-Logan International Airport (the Airport) and Hanscom Field, a general aviation reliever airport. Capitalized terms not otherwise defined have the meanings ascribed to such terms in the Official Statement to which this letter is attached as Appendix C.

Series 2007 PFC Bond Projects

The PFC Revenue Bonds, Series 2007-B, are being issued to finance a portion of the costs of certain airfield improvements at the Airport, including the construction of the newly opened Runway 14/32 and associated taxiways, overlay of Runway 4R/22L and Runway 4L/22R, taxiway improvements, and other miscellaneous airfield improvements. These projects are referred to collectively herein as the "Series 2007 PFC Bond Projects." In addition to Series 2007 PFC Bond proceeds, the Authority expects to use pay-as-you-go PFC revenue*, federal Airport Improvement Program (AIP) grants and proceeds from the

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*"PFC revenue" is used in this report to mean PFC collections (and interest income thereon) in general, whether or not they are pledged to the payment of PFC Bonds. "PFC Pledged Revenue" is used in this report as defined in the PFC Revenue Bond Trust Agreement (i.e., Pledged Portion of PFC collections and interest income thereon, all of which is pledged to the payment of PFC Bonds).

sale of General Revenue Bonds* to pay costs of the Series 2007 PFC Bond Projects not funded with proceeds of the Series 2007 PFC Bonds. Pursuant to the Authority's FAA approvals, the majority of the cost of these projects is eligible for PFC funding.

The total cost of the Series 2007 PFC Bond Projects is estimated to be approximately $147.8 million, of which $43.9 million is to be financed with the Series 2007 PFC Bonds. The Series 2007 PFC Bond Projects are substantially completed. The costs and funding sources for the individual project elements comprising the Series 2007 PFC Bond Projects is shown in the table below.

SUMMARY OF SERIES 2007 PFC BOND-FUNDED PROJECTS
(Dollars in millions)

Project	Series 2007-B PFC Revenue Bond-funded cost	PFC pay-as-you-go funded cost	Non-PFC funded cost	Total project cost
Runway 14/32 and associated taxiways	$17.4	$ --	$70.1	$ 87.5
Runway improvements	18.1	5.1	10.6	33.8
Taxiway improvements	7.2	--	18.1	25.3
Airfield drainage and outfall reconstruction	0.4	--	--	0.4
Airfield perimeter improvements	0.8	--	--	0.8
Total	$43.9	$5.1	$98.8	$147.8

PFC Trust Agreement

The Series 2007 PFC Bonds are to be issued on a parity basis with the Authority's outstanding Series 1999 PFC Revenue Bonds, pursuant to the PFC Revenue Bond Trust Agreement dated May 6, 1999, the Second Supplemental Agreement, and a resolution of the Authority pertaining to the Series 2007 PFC Bonds, adopted by the Authority on May 17, 2007. (The PFC Revenue Bond Trust Agreement, the First Supplemental

*General Revenue Bonds issued under the Trust Agreement dated as of August 1, 1978, between the Authority and U.S. Bank National Association, as trustee, are payable from and secured by a pledge of the Authority's general revenues, other than PFC revenues.

Agreement, and the Second Supplemental Agreement are referred to collectively herein as "the PFC Trust Agreement.")

In May 1999, the Authority issued Series 1999 PFC Revenue Bonds in the amount of $249.4 million to fund certain PFC-eligible costs associated with the expansion and redevelopment of the International Gateway (Terminal E).

Under the provisions of the PFC Trust Agreement, PFC Bonds are payable solely from and secured solely by PFC Pledged Revenue and Additional Pledged Revenue, if any, as defined in the PFC Trust Agreement. However, PFC Bonds may also be payable and secured by a Credit Facility. PFC Pledged Revenue consists of all revenue received by the Authority from PFCs collected by the airlines which enplane passengers at the Airport, and interest earned thereon, that is subject to the pledge of the PFC Trust Agreement. PFC Pledged Revenue includes all revenue received by the Authority attributable to the first $4.50 of PFCs collected from each eligible passenger (plus interest earned on such receipts) and is subject to increase or decrease as provided in the PFC Trust Agreement. Interest earned on funds that hold the proceeds of PFC-related debt (i.e., Debt Service Reserve Fund, Subordinated Debt Service Reserve Fund, and Project Fund) is not considered part of PFC Pledged Revenue. Should Congress permit a PFC higher than $4.50, and should the Authority impose such a charge, that revenue would not necessarily be pledged to payment of the Series 2007 PFC Bonds and Series 1999 PFC Bonds.

Pursuant to a resolution of the Authority dated May 17, 2007, and the terms of the Second Supplemental Agreement, revenues associated with the incremental $1.50 of PFCs collected (i.e., the amount represented by the increase from a $3.00 PFC levy to a $4.50 PFC levy) were added to the definition of PFC Pledged Revenue. Consequently, revenues associated with the entire $4.50 PFC levy are pledged to the payment of debt service on all PFC Bonds, including the Series 2007 PFC Bonds and the Series 1999 PFC Bonds.

Additional Pledged Revenue consists of other income, revenue, or receipts that are legally available and pledged irrevocably to the payment of PFC Bonds. The Authority has no obligation or plan to pledge such revenue at this time. Accordingly, no Additional Pledged Revenue was assumed in this report.

All PFC collections are deposited to the Collection Fund held by the Authority. The PFC Trust Agreement establishes certain funds and accounts and the priority for the flow of PFC Pledged Revenue and Additional Pledged Revenue, if any, to such funds and accounts, as illustrated on Figure 1. The Pledged Portion of PFC collections is deposited to the PFC Pledged Revenue Fund. Amounts from the PFC Pledged Revenue Fund are then applied as necessary on a monthly basis for various purposes to funds and accounts in the priority listed on Figure 1. Figure 1 also summarizes the purpose

Priority	Flow of Funds	Purpose/Use	Required Deposits	Flow of Interest Income	Fund Maintained/Held By
	Collection Fund	Distribution of all PFC collections to various funds	All PFC collections	None expected (transferred daily)	Authority/Depositary
	PFC Pledged Revenue Fund	Depository for Pledged Portion of PFC collections ("PFC Pledged Revenue") and Additional Pledged Revenue	Pledged Portion of PFC collections and Additional Pledged Revenue	Transferred to Debt Service Fund monthly	Authority/Depositary
1	**Debt Service Fund** Principal Account Interest Account Redemption Account Capitalized Interest Account	Pay all principal and interest on the PFC Bonds	Required monthly deposits for Interest Account and Principal Account on the PFC Bonds	Remains in fund	Trustee
2	**Debt Service Reserve Fund**	Pay principal and interest deficiencies on the PFC Bonds	Amount necessary to maintain required Reserve Fund Requirement balance on the PFC Bonds	Transferred to Debt Service Fund monthly	Trustee
3	**Subordinated Debt Service Fund** *(a)* Principal Account Interest Account Redemption Account Capitalized Interest Account	Pay all principal and interest on Subordinate Lien PFC Obligations including transfer to Note Payment Fund amount of interest due on subordinated Bond Anticipation Notes (BANs) or Revenue Anticipation Notes (RANs)	Required deposits for Interest Account and Principal Account for Subordinate Lien PFC Obligations	Remains in fund	Trustee
4	**Subordinated Debt Service Reserve Fund**	Pay principal and interest deficiencies on Subordinate Lien PFC Obligations	Amount necessary to maintain required Reserve Account balance on Subordinate Lien PFC Obligations	Transferred to Subordinate Debt Service Fund monthly	Trustee
5	**Rebate Fund**	Rebate interest earnings due to U.S. Treasury	Amount necessary to maintain Rebate Fund Requirement	Remains in fund if needed, otherwise transferred to PFC Capital Fund	Trustee
6	**PFC Capital Fund** *(b)*	Pay Costs of Projects, make deposits to the PFC Pledged Revenue Fund or the Note Payment Fund, retire outstanding PFC Bonds and BANs or RANs, or use moneys for any other lawful purpose permitted by the PFC Regulations	All remaining PFC Pledged Revenue	Transferred to PFC Pledged Revenue Fund at Authority's discretion	Authority/Depositary
Other funds	**Project Fund**	Pay Costs of Projects	Net proceeds from sale of PFC Bonds	Transferred to Debt Service Fund	Trustee
	Note Payment Fund	Pay interest on BANs or RANs and repay BAN or RAN principal	Required deposit for interest on BANs or RANs	Transferred to Debt Service Fund	Trustee

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(a) Subordinate Lien PFC Obligations issued under the terms of the PFC Trust Agreement, which does not include the Authority's commercial paper indebtedness secured by the general revenues of the Authority. Moneys in the PFC Capital Fund are expected to be used for interest and principal payments on outstanding commercial paper balances related to PFC-approved projects.

(b) Amounts available in the PFC Capital Fund are expected to be transferred into the PFC Pledged Revenue Fund.

Note: In accordance with the PFC Trust Agreement entered into by the Authority and The Bank of New York (as Trustee) on May 6, 1999.

Figure 1

FUNDS ESTABLISHED UNDER THE PFC REVENUE BOND TRUST AGREEMENT

Massachusetts Port Authority

May 2007

and use of the Project Fund and Note Payment Fund and associated deposits, the flow of interest income in the various funds, and the party responsible for maintaining or holding each fund.

The Series 2007 PFC Bonds are not a general obligation of the Authority or the Commonwealth of Massachusetts or any instrumentality thereof, and no revenues of the Authority other than PFC Pledged Revenue are currently pledged to pay the principal of, interest on, or any premium on the Series 2007 PFC Bonds. The Series 2007 PFC Bonds (together with the Series 1999 PFC Bonds) are secured separately from all of the Authority's other outstanding indebtedness. The Series 2007 PFC Projects are not security for the Series 2007 PFC Bonds.

Authority Covenants

Pursuant to the First Lien Sufficiency Covenant of the PFC Trust Agreement, the Authority covenants to manage the PFC program so that, at all times, Unspent PFC Authority* plus Projected Additional Pledged Revenue, if any, is at least equal to 105% of Projected Aggregate Debt Service for all Outstanding PFC Bonds (including the Series 2007 PFC Bonds and the Series 1999 PFC Bonds). In the PFC Trust Agreement, the Authority covenants to comply with the Aviation Safety and Capacity Expansion Act of 1990 (the PFC Act) and Federal Aviation Regulations (FAR) Part 158, *Passenger Facility Charges* (the PFC Regulations) as applicable, and all provisions of the PFC Authority. The Authority has made certain other covenants regarding exemption of the interest on the Series 2007 and the Series 1999 PFC Bonds from federal income taxation,

maintenance of projects and the Airport, property insurance, and books and records, and has made additional covenants regarding measures it will take if Unspent PFC Authority plus Projected Additional Pledged Revenue in any Fiscal Year is less than required to fulfill the First Lien Sufficiency Covenant (see Appendix D of the Official Statement to which this report is attached).

In the PFC Trust Agreement, the Authority also covenants not to impose any noise or access restrictions at the Airport that are not in compliance with the Airport Noise and Capacity Act of 1990 (the Noise Act). The Authority also covenants not to take any action or omit to take any action with respect to PFC Pledged Revenue, the Series 2007 PFC Bond Projects, the Airport, or otherwise if such action would cause the termination or reduction of the Authority's authority to impose a PFC or prevent the use of PFC Pledged Revenue as contemplated in the PFC Trust Agreement.

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*Unspent PFC Authority is the aggregate dollar amount of PFC revenue authorized to be collected by the Authority less expenditures to date and amounts legally obligated to be paid from PFC Pledged Revenue (including debt service paid to date on the PFC Bonds). Please refer to the PFC Trust Agreement for a complete definition.

Scope of the Study

Our study was undertaken to review the ability of the Authority to generate sufficient PFC Pledged Revenue to meet the financial requirements of the PFC Trust Agreement during the forecast period (FY 2007 through FY 2011). In conducting our study, we reviewed:

- The study dated May 17, 2007, prepared by Simat, Helliesen & Eichner, Inc., of the underlying market for airline traffic demand at the Airport, including trends in the population and economy of the geographic region served, historical trends in airline traffic, and key factors affecting future airline traffic
- The Authority's forecasts of airline traffic underlying the forecasts of PFC Pledged Revenue
- The Airport's historical PFC collections, enplanements, PFC interest income, and PFC expenditures
- The Authority's PFC collection policy and procedures
- The types and number of passengers enplaning at the Airport who would pay a PFC as the basis for forecasting PFC collections
- Estimated sources and uses of funds for the Series 2007 PFC Bond Projects and associated estimates of Annual Debt Service and net annual PFC debt service provided by the Authority
- Planned PFC expenditures (including contractual commitments) for Approved Projects included in the Authority's FY 2007-2011 Capital Program, and
- The Authority's forecast PFC collections, and interest income on the PFC Pledged Revenue Fund and PFC Capital Fund
- The Final Agency Decisions and Records of Decision received by the Authoirty related to its PFC program

We have relied upon the information listed above and other information provided to us without validating the accuracy, completeness, or reliability of such information. While we have no reason to believe that the information does not provide a reasonable basis for the PFC revenue forecasts set forth in this review, we offer no assurances as to the accuracy or reliability of such information.

Passenger Facility Charge

In August 1993, the Authority received its first approval from the Federal Aviation Administration (FAA) to impose a PFC. From November 1993 until September 2005, the Authority imposed a PFC of $3.00 per eligible enplaned passenger at the Airport under the terms of three PFC applications and FAA approvals, the most recent of which the Authority received on February 5, 1998 (the "1998 FAA Approval").

On October 1, 2005, the Authority increased the PFC levy to $4.50 per eligible enplaned passenger, under the terms of an FAA-approved amendment to its third PFC application and approval. The Authority is currently authorized to collect a total of $995,033,217 under four PFC approvals, and to expend $982,191,217 on PFC-approved projects. From inception of the Authority's PFC program in 1993 through December 31, 2006, the Authority has collected approximately $483.3 million in PFC revenue, including interest income thereon.

As part of the 2005 FAA Approval authorizing the Authority to use PFC revenue for the Series 2007 PFC Bond Projects, the Authority is now authorized to collect approximately $72.8 million in PFC revenue for project and financing costs associated with the Series 2007 PFC Bond Projects.

Other Capital Improvements Funded with PFC Revenue

The FAA has granted the Authority the authority to impose a PFC and use PFC revenue to finance certain Approved Projects at the Airport (and to only impose a PFC for one project for which use approval has not yet been granted – the Centerfield Taxiway project). Through the end of the forecast period, the Authority expects to finance and construct Approved Projects (including the Series 2007 PFC Bond Projects) fully or partially with PFC revenue. The other Approved Projects included in the Authority's FY 2007-2011 Capital Program, as approved by the Authority's Board in February 2007, are:

- International Gateway—costing $463.4 million, of which $389.3 million is PFC-eligible and funded with PFC revenue, and the balance with General Revenue Bonds, grant proceeds provided by the federal Transportation Security Administration, and other sources. The International Gateway project (which includes the configuration and expansion of space to accommodate in-line hold baggage screening by the Transportation Security Administration) is substantially complete.
- Residential Sound Insulation—costing $68.2 million, of which $13.6 million is funded with PFC revenue and the balance with AIP grants

- Reconstruction of Aprons and Alleyways—costing $13.9 million, which is 100% PFC-funded

- Security Improvements—costing $96.3 million, of which $43.0 million is funded with PFC revenue and the balance with proceeds from other Authority funding sources

- Taxiway D Extension – costing $13.3 million, of which $3.3 million is funded with PFC revenue and the balance with AIP grants

Additionally, the Authority expects the Centerfield Taxiway project to cost $53.5 million, of which $12.8 million would be PFC-funded (upon receipt of FAA approval to use PFCs for this project).

The Authority expects the sources of funding for capital improvements other than Series 2007 PFC Bond Projects to include (but not be limited to) AIP grants, pay-as-you-go PFC revenue, internally generated Authority funds, and General Revenue Bonds.

Additionally, as of the date of this report, the Authority has completed PFC funded projects totaling $407.4 million in total cost ($320.1 in PFC-funded costs), including residential sound insulation, circulating roadways, Logan Modernization Program preliminary planning, Terminal E modernization, and the elevated walkway system projects.

The Authority has not committed to issue any future PFC Bonds during the forecast period to finance future capital improvements, and no such issuance of future PFC Bonds is reflected in this report.

Other Authority Indebtedness

The Authority has financed capital improvements at the Airport from a variety of sources, including internally generated Authority funds, grants, the issuance of bonds payable from sources other than PFC revenue, and pay-as-you-go PFC revenue. The Authority has funded capital improvements for its facilities other than the Airport from sources that include the issuance of bonds. All of the Authority's General Revenue Bonds are secured by revenues separate and apart from the PFC revenue being pledged under the PFC Trust Agreement to secure the Series 1999 PFC Bonds and the proposed Series 2007 PFC Bonds.

Summary of Forecast Results

As indicated in the financial exhibits accompanying this report, pledged PFC receipts plus the interest earned on the PFC Pledged Revenue Fund and the PFC Capital Fund (but excluding the interest earned on the PFC Debt Service Fund) is forecast to be sufficient to meet Annual Debt Service net of interest earnings on the Debt Service Fund, Debt Service Reserve Fund, and Project Fund, for each year of the forecast period (FY 2007 through FY 2011).

In addition, Unspent PFC Authority is forecast to be sufficient to meet the requirements of the First Lien Sufficiency Covenant for each year of the forecast period (FY 2007 to FY 2011). Unspent PFC Authority is also projected to be sufficient to meet the First Lien Sufficiency Covenant for each year of the period FY 2012 through FY 2017. Both the Series 2007 PFC Bonds and the Series 1999 PFC Bonds are expected to be fully retired by the end of FY 2017.

PFCs available for the calculation of debt service coverage, Annual PFC Debt Service, projected interest income on funds and accounts holding proceeds of PFC debt and PFC debt service, net annual debt service, the net annual debt service coverage ratio, and the First Lien Sufficiency Covenant coverage ratio are summarized in the table on the following page.

As part of this study, we assisted the Authority in identifying key factors upon which the future results of the Authority's PFC program may depend and in formulating certain assumptions about those factors. Specifically, we assisted the Authority in formulating assumptions regarding passenger enplanements and PFC Pledged Revenue. On the basis of the assumptions, we reviewed the Authority's forecasts and assembled the accompanying exhibits, as listed below:

- Exhibit A Historical and Forecast PFC Collections
- Exhibit B Historical and Forecast Application of PFC Revenue
- Exhibit C Historical and Forecast Net Annual PFC Debt Service
- Exhibit D Historical and Forecast Net Annual PFC Debt Service Coverage
- Exhibit E First Lien Sufficiency Covenant Coverage

In the Authority's financial forecasts, the Series 1999 PFC Bonds and the Series 2007 PFC Bonds were assumed to be payable solely from PFC Pledged Revenue. Thus, the financial analysis included in this report does not reflect other revenue sources, operating expenses, debt service, or required deposits to be funded from other revenue sources.

FORECAST PFC BOND DEBT SERVICE COVERAGE AND FIRST LIEN SUFFICIENCY COVENANT COVERAGE
(Dollars in thousands)

Fiscal Year	PFCs available for the calculation of debt service coverage *(a)*	Annual Debt Service *(b)*	Less interest earnings projected on funds/accounts holding PFC debt and debt service *(c)*	Net annual debt service	Net annual debt service coverage ratio *(d)*	First Lien Sufficiency Covenant coverage ratio *(e)*
	[A]	[B]	[C]	[D=B-C]	[A/D]	
2007	$54,466	$21,543	$1,282	$20,262	2.69	1.69
2008	54,606	28,319	1,553	26,766	2.04	1.76
2009	55,398	28,319	1,553	26,767	2.07	1.81
2010	56,168	28,321	1,553	26,768	2.10	1.85
2011	57,035	28,321	1,553	26,768	2.13	1.83

(a) Consists of PFC pledged receipts from the airlines and interest earned on the PFC Pledged Revenue Fund and PFC Capital Fund, and Additional Pledged Revenue, if any. Excludes interest earned on the PFC Debt Service Fund. No Additional Pledged Revenue was assumed. See Exhibit D.
(b) Source: The Authority, May 2007.
(c) Source: The Authority, May 2007; includes accrued interest as well as projected interest earnings on the Debt Service Fund, Debt Service Reserve Fund, and Project Fund. Projected interest earnings on the PFC Project Fund are based on cash flow assumptions provided by the Authority.
(d) See Exhibit D.
(e) See Exhibit E.

Key Factors and Assumptions

The achievement of the forecasts will depend particularly on the achievement of the assumptions regarding the following key factors:

1. ***Passenger Traffic***. Future growth in passenger traffic at the Airport will occur largely as a function of the population and economy of the Boston region; airline service and route networks; national and international economic and political conditions; the availability and price of aviation fuel; airline economics, competition, and airfares; the capacity of the national air traffic control system; and airport capacity provided at the Boston-area airports, including the Airport. The Authority has forecast passenger traffic to increase

an average of 1.5% per year from FY 2007 through FY 2011. According to Authority management, the capacity of the existing facilities at the Airport is sufficient to accommodate this projected increase in traffic.

2. ***Percentage of Passengers Paying a PFC***. The Authority collected a PFC from an average of 90.9% of enplaned passengers during FY 2002 through FY 2006. During this period, the percentage of passengers paying a PFC at the Airport ranged from 88.6% to 91.9%. The Authority has conservatively assumed that the average number of passengers paying a PFC in the future would average 88%.

3. ***Termination of Existing PFC Authority***. It is possible that the FAA could terminate the Authority's PFC collection authority before the Series 2007 PFC Bonds and the Series 1999 PFC Bonds have matured. In the PFC Trust Agreement, the Authority has covenanted that it will comply with all applicable laws and regulations associated with the PFC program. The Authority has received a nontermination waiver regarding PFC collections for the Series 1999 PFC Bond Projects, which takes effect once a certificate of completion is submitted to the FAA for each project element funded with proceeds of the Series 1999 Bonds. Such a nontermination waiver has not been received from the FAA with respect to the Series 2007 PFC Bonds.

4. ***Adequacy of Project Funds***. The Authority believes that the existing authority to collect PFC revenue is adequate to meet approved PFC project costs as demonstrated by the following facts: (a) certain of the Series 2007 PFC Bond Projects are complete or substantially complete, thereby providing a high degree of confidence about project costs, (b) no other PFC Bonds are expected to be required to finance the PFC-eligible portions of the project, (c) the Authority has the ability under the PFC Regulations to amend its PFC applications to increase the amount of collections by up to 25% without having to consult with the FAA or the airlines, and (d) the Authority has sufficient capacity in its non-PFC commercial paper program and General Revenue Bond program to fund the PFC-ineligible portions of the project.

5. ***Future PFC Projects***. The Authority expects to apply for additional PFC authority in the future, to be applied to additional projects that the Authority may identify from time to time. The Authority believes that the bondholders' risk with respect to such future PFC projects is mitigated by the fact that, under the PFC Trust Agreement, the Authority must demonstrate the ability to service debt on any new PFC Bonds prior to issuance.

Assumptions Underlying the Forecasts

The forecasts in this report reflect the Authority's expected course of action in connection with its PFC program during the forecast period, and in the Authority's judgment, present fairly the expected financial results associated with the Authority's PFC program based on present circumstances. However, there can be no assurance that such forecast results will be realized.

Those key factors and assumptions that Authority management believes are significant to the forecasts are set forth in the Official Statement to which this report is attached. In our opinion, the assumptions underlying the Authority's forecasts of PFC Pledged Revenue provide a reasonable basis for the forecasts and we believe that such forecasts appropriately reflect such assumptions. To the best of our knowledge, we believe that the Authority has taken into account all relevant factors material to the forecasts.

Any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material. We have no responsibility to update this letter for events and circumstances occurring after the date of our review.

* * * * *

We appreciate the opportunity to serve as the Massachusetts Port Authority's Airport Consultant on this financing.

Respectfully submitted,

Jacobs Consultancy

JACOBS CONSULTANCY INC.

Exhibit A

HISTORICAL AND FORECAST PFC COLLECTIONS

Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Forecast				
	FY 2005	FY 2006 (a)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Enplaned passengers (thousands)	13,381	13,662	13,882	14,090	14,302	14,516	14,734
Annual percent increase		2.1%	1.6%	1.5%	1.5%	1.5%	1.5%
Passenger Facility Charge (PFC) (a)	$3.00	$4.13	$4.50	$4.50	$4.50	$4.50	$4.50
Airline Collection Fee	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Net PFC per enplaned passenger	$2.89	$4.02	$4.39	$4.39	$4.39	$4.39	$4.39
Passengers paying PFC (thousands)	12,220	12,007	12,299	12,399	12,586	12,774	12,966
Percent of enplaned passengers paying a PFC	91.3%	91.0%	88.6%	88.0%	88.0%	88.0%	88.0%
PFC collections (thousands)	$35,316	$48,324	$53,992	$54,434	$55,250	$56,079	$56,920

(a) The PFC levy was increased from $3.00 to $4.50 on October 1, 2005. The PFC charge shown for FY 2006 ($4.13) represents the average of $3.00 for the period July to September 2005, and $4.50 for the period October 2005 to June 2006.

Exhibit B
HISTORICAL AND FORECAST APPLICATION OF PFC REVENUE
Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Forecast				
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
PFC Capital Fund beginning balance	$13,443	$16,337	$12,142	$4,624	$10,156	$1,315	$4,662
SOURCES OF NET PFC REVENUE							
PFC receipts from airlines	$35,316	$48,324	$53,992	$54,434	$55,250	$56,079	$56,920
Interest earnings on PFC receipts (a)	621	1,265	474	172	148	89	115
Total PFC revenue	$35,937	$49,589	$54,466	$54,606	$55,398	$56,168	$57,035
USES OF NET PFC REVENUE							
Pay-as-you-go project expenditures (b)	($6,901)	($30,278)	($21,984)	($10,434)	($14,112)	($694)	($1,941)
Reimbursment to Massport Capital Budget from PFC revenues (c)	(5,929)	(2,759)	(18,938)	(6,444)	(7,800)	(5,200)	-
Net debt service on Series 1999 PFC Bonds and Series 2007 PFC Bonds (d)	(20,213)	(20,241)	(20,262)	(26,766)	(26,767)	(26,768)	(26,768)
Other uses of PFC revenues							
Payments on Commercial Paper balances (e)							
Principal payment	-	-	-	-	(10,000)	(15,000)	(25,000)
Interest payment	-	(506)	(800)	(5,430)	(5,560)	(5,160)	(4,560)
Total PFC expenditures	($33,043)	($53,784)	($61,984)	($49,074)	($64,239)	($52,822)	($58,269)
PFC Capital Fund ending balance (f)	$16,337	$12,142	$4,624	$10,156	$1,315	$4,662	$3,428

(a) Interest income on the PFC Pledged Revenue Fund and the PFC Capital Fund is calculated at an assumed interest rate of 2.25% (for FY 2007 and thereafter).
(b) Total PFC funded project costs, less amounts funded with PFC Bond proceeds and the Authority's Commercial Paper proceeds.
(c) Reimbursement to the PFC Capital Fund from proceeds of the 2007 PFC Bonds for certain PFC Project Costs that have already been funded on a pay-as-you-go basis.
(d) Source: The Authority.
(e) Source: The Authority. The Authority's Commercial Paper is not secured by PFC revenues, but by general revenues of the Authority. PFCs are used as a source of payment for interest and principal payments on Commercial Paper issued to undertake PFC-approved projects.
(f) Available PFC balances at the end of FY 2011 could be used to fund additional PFC projects (over and above those currently authorized by the FAA) or could be used for early retirement of the Series 1999 or Series 2007 PFC Bonds.

Exhibit C
HISTORICAL AND FORECAST NET ANNUAL PFC DEBT SERVICE
Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Forecast				
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Gross annual debt service							
Series 1999 PFC Bonds and Series 2007 PFC Bonds	$21,543	$21,546	$21,543	$28,319	$28,319	$28,321	$28,321
Less: interest income on							
Debt Service Reserve Funds and							
Debt Service Funds	($1,329)	($1,305)	($1,282)	($1,553)	($1,553)	($1,553)	($1,553)
Annual Net PFC debt service	$20,213	$20,241	$20,262	$26,766	$26,767	$26,768	$26,768

Exhibit D

HISTORICAL AND FORECAST NET ANNUAL PFC DEBT SERVICE COVERAGE

Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Actual		Forecast				
	FY 2005	FY 2006 (a)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Pledged Portion of PFC recepits	35,316	36,184	53,992	54,434	55,250	56,079	56,920
Interest income on PFC receipts	621	1,055	474	172	148	89	115
PFCs available for calculation of debt service coverage	35,937	37,239	54,466	54,606	55,398	56,168	57,035
Annual net PFC debt service	20,213	20,241	20,262	26,766	26,767	26,768	26,768
Annual net PFC debt service coverage	1.78	1.84	2.69	2.04	2.07	2.10	2.13

(a) The Pledged Portion of PFC receipts and interest income on PFC receipts figures for FY 2006 reflects an entire year of PFC collections at the $3.00 PFC level. Although the Authority increased its PFC levy to $4.50 on October 1, 2005, only PFC collections related to a $3.00 PFC levy were pledged to the payment of Series 1999 PFC Revenue Bonds during FY 2006. The Pledged Portion of PFC receipts and interest income on PFC receipts figures for FY 2007 to FY 2011 reflects the Authority's pledge of PFC receipts associated with the entire $4.50 PFC levy to the payment of debt service on the Series 1999 and Series 2007 PFC Bonds.

Exhibit E
FIRST LIEN SUFFICIENCY COVENANT COVERAGE
Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

The forecasts presented in this exhibit were prepared using information from the sources indicated and assumptions provided by, or reviewed with and adopted by, Authority management, as described in the accompanying text. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Actual (a)		Forecast				
		FY 2005	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**
PFC Authority	[A]	$927,353	$803,161	$995,033	$995,033	$995,033	$995,033	$995,033
Minus:								
Cost of approved projects paid or obligated		316,372	447,424	447,841	447,841	457,841	472,841	497,841
PFC Bond debt service paid to date		72,001	91,965	111,763	137,482	164,143	190,803	217,459
		$388,373	$539,389	$559,604	$585,322	$621,984	$663,643	$715,299
Plus: Additional Pledged Revenue		-	-	-	-	-	-	-
	[B]	$388,373	$539,389	$559,604	$585,322	$621,984	$663,643	$715,299
Unspent PFC Authority	[C = A - B]	538,980	263,772	435,429	409,711	373,049	331,390	279,734
Projected Aggregate Debt Service on PFC Bonds (b)	[D]	211,285	191,021	258,246	232,527	205,865	179,206	152,550
First Lien Sufficiency Covenant coverage	[C / D]	2.55	1.38	1.69	1.76	1.81	1.85	1.83
First Lien Sufficiency Covenant requirement		1.05	1.05	1.05	1.05	1.05	1.05	1.05

Exhibit E (page 2 of 2)
FIRST LIEN SUFFICIENTCY COVENANT COVERAGE
Massachusetts Port Authority
For Fiscal Years Ending June 30
(in thousands)

		Projected					
		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
PFC Authority	[A]	995,033	995,033	995,033	995,033	995,033	995,033
Minus:							
Cost of approved projects paid or obligated		521,841	549,841	581,841	586,841	586,841	586,841
PFC Bond debt service paid to date		244,108	270,754	297,395	324,031	350,659	370,009
		765,949	820,594	879,236	910,872	937,499	956,849
Plus: Additional Pledged Revenue		-	-	-	-	-	-
	[B]	765,949	820,594	879,236	910,872	937,499	956,849
Unspent PFC Authority	[C = A - B]	229,084	174,439	115,797	84,161	57,534	38,184
Projected Aggregate Debt Service on PFC Bonds (b)	[D]	125,901	99,255	72,613	45,977	19,350	-
First Lien Sufficiency Covenant coverage	[C / D]	1.82	1.76	1.59	1.83	2.97	-
First Lien Sufficiency Covenant requirement		1.05	1.05	1.05	1.05	1.05	1.05

(a) Source for actual historical data -- Statement of PFC Annual Financial Information and Operating Data of the Massachustees Port Authority, for Fiscal Years 2005 and 2006 (except as noted). The "PFC Authority" figure shown for FY 2006 ($803.2 million) represents the estimated authorized PFC collections related to the $3.00 PFC levy only. While the Authority increased its PFC levy to $4.50 on October 1, 2005, only PFC receipts related to the $3.00 levy were pledged to the payment of debt service on the Series 1999 PFC Bonds during FY 2006. Consequently, the First Lien Sufficiency Covenant coverage figure shown here for FY 2006 differs from that shown in the Authority's Statement of PFC Annual Financial Information and Operating Data of the Massachusetts Port Authority, for Fiscal Year 2006. The "PFC Authority" figure shown for FY 2007 and thereafter reflects the Authority's intention to pledge all PFC receipts associated with the $4.50 PFC levy to the payment of debt service on the Series 1999 and Series 2007 PFC Bonds.

(b) For forecast and projected periods (FY 2007 to FY 2017), the calculation of the First Lien Sufficiency Covenant coverage does not reflect potential early call of the PFC Revenue Bonds.

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PFC TRUST AGREEMENT

The following statements are summaries of certain provisions of the PFC Trust Agreement, as supplemented and amended by the Second Supplemental Agreement. References in this Summary to the PFC Trust Agreement are to the PFC Trust Agreement as so supplemented and amended. This summary does not purport to be complete and is subject to all of the terms and conditions of the PFC Trust Agreement, to which reference is hereby made, the form of which is available for examination at the offices of the Authority and the Trustee. This summary makes use of terms defined in the PFC Trust Agreement, certain of which are also defined below.

Definitions

The following terms as used in the PFC Trust Agreement the First Lien PFC Bonds and any certificate or document executed in connection therewith will have the following meanings unless the context otherwise indicates:

"Accountant" means an independent certified public accountant (or a firm thereof) selected by the Authority, which may be the accountant regularly auditing the books of the Authority.

"Accreted Value" means (1) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the Supplemental Agreement authorizing the issuance of such PFC Bonds as the amount representing the initial principal amount of such PFC Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such PFC Bonds plus the amount of discounted principal which has accreted since the date of issue. In each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Agreement authorizing the issuance of such PFC Bonds.

"Additional Pledged Revenue" means any income, receipt or revenue of the Authority (other than PFC Pledged Revenue) legally available and pledged irrevocably by resolution of the Authority to the payment of the principal of and interest on First Lien PFC Bonds and/or Subordinate Lien PFC Obligations.

"Advance-Refunded Municipal Bonds" mean obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and are fully and irrevocably secured as to principal and interest by Government Obligations, or Government Obligations which have been stripped of their unmatured interest coupons or interest coupons stripped from Government Obligations, held in trust for the payment thereof and which obligations are rated in the highest rating category by each Rating Agency.

"Annual Debt Service" means the total amount of Debt Service of any PFC Bond or Series of PFC Bonds in any Fiscal Year or Base Period.

"Authorized Newspaper" means *The Bond Buyer*, *The Wall Street Journal* or any newspaper or financial journal which is customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, printed in the English language, containing financial news, and of general circulation in the Authority of Boston and the Authority.

"Authorized Representative" means, with respect to the Authority, each of the Executive Director, Director of Administration and Finance or Secretary-Treasurer of the Authority and, when used in reference to an

act or document, will also mean any other person authorized by the Authority or by any such officers to perform such act or sign such document.

"Average Annual Debt Service" means the aggregate dollar amount of Debt Service with respect to PFC Bonds, or any specified Series of PFC Bonds, through the scheduled maturities thereof (stated maturity dates or mandatory redemption dates with respect to term debt), divided by the number of years remaining during which PFC Bonds, or such Series of PFC Bonds, are scheduled to mature or be subject to mandatory redemption (commencing with the year following the year of calculation).

"Balloon Maturity Bonds" mean Bond Anticipation Notes and any PFC Bonds which are so designated in the Supplemental Agreement pursuant to which such PFC Bonds are issued.

"Base Period" means any consecutive twelve-month period selected by the Authority out of the 18-month period next preceding the date of issuance of an additional Series of PFC Bonds.

"Bond Anticipation Notes" mean any of the bond anticipation notes issued pursuant to the PFC Trust Agreement and will include, unless the context otherwise indicates, Parity Bond Anticipation Notes and Subordinated Parity Bond Anticipation Notes.

"Bond Counsel's Opinion" means an opinion signed by Ropes & Gray LLP or any attorney or firm of attorneys of nationally recognized standing in the field of law relating to revenue bonds of public instrumentalities, selected by the Authority and satisfactory to the Trustee and may be an attorney or firm regularly providing services to the Authority.

"Business Day" means any day other than a Saturday, a Sunday or any other day on which any Fiduciary is authorized or required by law to be closed for business.

"Capital Appreciation Bonds" mean PFC Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such PFC Bonds; provided that if so provided in the Supplemental Agreement authorizing their issuance, PFC Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which PFC Bonds no longer are Capital Appreciation Bonds, they will be deemed Outstanding in a principal amount equal to their Accreted Value.

"Capitalized Interest" means, for any particular Series of Secured Indebtedness, that portion of the proceeds of such Series, if any, required by the Supplemental Agreement authorizing such Series to be deposited in a Subaccount established for such Series in the Capitalized Interest Account in the Debt Service Fund or the Subordinated Debt Service Fund, as the case may be, for the purpose of funding the payment of a portion of the interest to come due on such Series.

"Certificate" means, when used with respect to the Authority, an Accountant or any Consultant, a signed document or report, as the context indicates, of such person or firm, which in the case of the Authority will be signed by an Authorized Representative, attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the PFC Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as amended, including any regulations promulgated thereunder or applicable thereto.

"Collecting Carriers" mean air carriers (including foreign air carriers) and their agents which are required by the PFC Act to collect PFCs for remission to the Authority.

“Completion PFC Bond” means any First Lien PFC Bond or Subordinate Lien PFC Obligation authenticated and delivered on original issuance pursuant to the PFC Trust Agreement for the purpose of paying

costs of completing a Project for which First Lien PFC Bonds or Subordinate Lien PFC Obligations, respectively, have previously been issued, or thereafter authenticated and delivered in lieu of or substitution for such First Lien PFC Bond or Subordinate Lien PFC Obligation pursuant to the PFC Trust Agreement.

"Consultant" means at any time an independent consultant or consultant firm nationally recognized in aviation matters or an engineer or engineering firm or other expert appointed by the Authority to perform the duties of the Consultant as required by the PFC Trust Agreement. The term Consultant will also include an independent certified public accountant or public accounting firm appointed by the Authority to make such calculation or to provide such certificate or an independent nationally recognized financial advisor or firm of financial advisors appointed by the Authority for purposes of making calculations required by the PFC Trust Agreement.

"Costs" means, with respect to any Projects, all costs paid or legally obligated to be paid by the Authority in connection with the acquisition and construction of such Projects, and the placing of the same in operation, including, but without limiting the generality of the foregoing, paying all or a portion of the principal of and/or premium and/or interest on PFC Bonds or any portion thereof issued to finance the costs of such Projects to the extent permitted by the PFC Act and the PFC Regulations; paying amounts required to meet any reserve requirement for such Series of PFC Bonds; paying or reimbursing the Authority or any fund thereof or any other person for expenses incident and properly allocable to the acquisition and construction of such Projects and the placing of the same in operation; and all other items of expense incident and properly allocable to the acquisition and construction of said additions and improvements, the financing of the same and the placing of the same in operation if and to the extent permitted by the PFC Act, the PFC Regulations and applicable law, including without limitation Costs of Issuance.

"Costs of Issuance" means all items of expense directly or indirectly payable or reimbursable by or to the Authority and related to the authorization, sale and issuance of Secured Indebtedness.

"Credit Facility" means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guarantee or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution which provides for payment of all or a portion of the Principal Installments or interest due on any Series of PFC Bonds or provides funds for (i) the direct payment of the Principal Installments of and interest on such PFC Bonds when due or (ii) the payment of the Principal Installments of and interest on such PFC Bonds in the event amounts otherwise pledged to the payment thereof are not available when due or (iii) the payment of the Tender Option Price of any Option Bond which may be tendered to the Authority for purchase or payment in accordance with the Supplemental Agreement authorizing such Option Bond (in any case, regardless of whether such Credit Facility provides funds for any other purpose).

"Debt Service" means, for any period of time

(a) with respect to any Outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the Supplemental Agreement authorizing their issuance, the principal amount thereof will be equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest, if any, payable during such period;

(b) with respect to any Outstanding Fixed Rate Bonds (excluding Designated Debt and Balloon Maturity Bonds), an amount equal to (i) the principal amount of such PFC Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (ii) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such PFC Bonds, plus (iii) all interest payable during such period on any such PFC Bonds Outstanding and with respect to PFC Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such PFC Bonds on the date(s) specified in the Supplemental Agreement authorizing such PFC Bonds;

(c) with respect to First Lien PFC Bonds bearing variable rates of interest (excluding Designated Debt and Balloon Maturity Bonds), an amount for any period equal to the amount which would have been payable for principal and interest on such PFC Bonds during such period computed on the assumption that the amount of PFC Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the Supplemental Agreement authorizing the issuance of such PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance, (ii) at an interest rate equal to the highest rate payable by the Authority with respect to such PFC Bonds and (iii) following a period of interest-only or reduced-principal payments of a duration not to exceed five years, if and as specified in writing by the Authority to the Trustee, to provide for essentially level annual debt service of principal and interest over such period;

(d) with respect to each Series of Designated Debt, the amount required to be paid during such period by the Authority to the Qualified Swap Provider in respect of the Qualified Swap relating to such Series of Designated Debt; and

(e) with respect to Balloon Maturity Bonds, an amount for any period equal to the amount which would have been payable for principal and interest on such PFC Bonds during such period computed on the assumption that the amount of PFC Bonds Outstanding as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the Supplemental Agreement authorizing the issuance of such PFC Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance, (ii) at an interest rate equal to the yield to maturity determined in accordance such index of debt obligations as shall be specified by the Authority in the Supplemental Agreement authorizing the issuance of such Series of PFC Bonds and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the Designated Authority Representative's Certificate or the Independent Aviation Consultant's Certificate, then within ten days prior to the date of such certificate and (iii) following a period of interest-only or reduced-principal payments of a duration not to exceed five years, if and as specified in writing by the Authority to the Trustee, to provide for essentially level annual debt service of principal and interest over such period.

With respect to any PFC Bonds payable in other than United States dollars, Debt Service will be calculated as provided in the Supplemental Agreement authorizing the issuance of such PFC Bonds. Debt Service will be net of any interest and principal funded out of PFC Bonds proceeds or the proceeds of other funds or indebtedness.

Debt Service will include Reimbursement Obligations to providers of Credit Facilities to the extent such reimbursement obligations are outstanding or as otherwise authorized in a Supplemental Agreement.

"<u>Defeasance Obligations</u>" mean the obligations described in clause (a), (b) or (i) of the definition of Investment Securities in the PFC Trust Agreement; provided that such obligations are not redeemable prior to the maturity date or stated redemption date relied upon in satisfying the conditions of "Defeasance" provisions of the PFC Trust Agreement.

"<u>Depositary</u>" means any bank or trust company selected by the Authority, as the case may be, as a depositary of moneys to be held under the provisions of the PFC Trust Agreement, and may include the Trustee.

"<u>Designated Authority Representative</u>" means the Executive Director, the Director of Administration and Finance or the Secretary-Treasurer of the Authority or such other person as may be designated from time to time by resolution of the Authority by a writing executed by the Executive Director, the Director of Administration and Finance or the Secretary-Treasurer.

"Designated Authority Representative's Certificate" means a Certificate executed by a Designated Authority Representative and stating that

(a) the First Lien Sufficiency Covenant will be met upon the issuance of the Future First Lien PFC Bonds; and

(b) Pledged Revenue, including without limitation the amount of interest earnings on moneys deposited in the PFC Capital Fund but excluding interest earnings on the Debt Service Fund, received during the Base Period (as shown in the audited or unaudited financial statements of the Authority) was not less than 135% of Maximum Adjusted Annual Debt Service on all First Lien PFC Bonds that will be Outstanding upon the issuance of such Future First Lien PFC Bonds;

provided, however, that in preparing such certificate, the Designated Authority Representative (i) will take into account any Forecast PFC Rate Adjustment as if such new rate had been in effect during the entire Base Period and (ii) may take into account any Additional Pledged Revenue only if each Rating Agency then maintaining a rating on First Lien PFC Bonds has confirmed, on or prior to the date of the Designated Authority Representative's Certificate, that such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or to withdraw its underlying rating on the First Lien PFC Bonds then Outstanding.

"Designated Debt" means any Series of PFC Bonds with respect to which there will be in effect a Qualified Swap.

"Disbursement Request" means the written request signed by an Authorized Representative of the Authority and required to be delivered to the Trustee pursuant to the Project Fund provision of the PFC Trust Agreement to effect disbursements from the Project Fund and will be in substantially the form set forth in the applicable Supplemental Agreement.

"Event of Default" means any event specified below under the heading "Events of Default".

"FAA Notice" means a notice from the FAA by certified mail to the Authority and the Trustee of suspected violation(s) of the PFC Act, the Noise Act, the PFC Regulations or the PFC Authority, which notice states that the authority of the Authority to impose or use PFCs included in the Pledged Portion could be reduced or terminated as a result of such suspected violation(s).

"Fiduciary" means each of the Trustee and any Paying Agent or Depositary.

"Financial Guaranties" mean one or more of the following: (i) irrevocable, unconditional and unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or the holding company of any such banking institution) have (at the time of issue of such letter of credit) a rating in either of the two highest categories from each of S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, a rating in either of the two highest categories of such Rating Agency; or (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect issued by municipal bond insurers or multiline insurers the obligations insured by which are eligible for a rating in either of the two highest categories from each of S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, a rating in either of the two highest categories of such Rating Agency; in each case providing for the payment of sums for the payment of Principal Installments of and interest on Secured Indebtedness in the manner provided in the "Debt Service Reserve Fund" and "Subordinated Debt Service Reserve Fund" provisions of the PFC Trust Agreement; and providing further that any such Financial Guaranty must be drawn upon on a date which is at least seven days prior to the expiration date of such Financial Guaranty in an amount equal to the deficiency in the applicable reserve requirement which would exist if the Financial Guaranty expired, unless a substitute Financial Guaranty is acquired prior to such expiration date as provided in a related Supplemental Agreement.

"First Lien PFC Bonds" mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered pursuant to the PFC Trust Agreement, including the 1999 PFC Bonds and the 2007 PFC Bonds, and also mean any Parity Bond Anticipation Notes and any Parity Reimbursement Obligation incurred with respect to First Lien PFC Bonds, but do not mean Subordinate Lien PFC Obligations, other Bond Anticipation Notes or other Secured Indebtedness.

"First Lien Series Reserve Requirement" means the requirement, if any, specified for a Series of First Lien PFC Bonds or for two or more Series of First Lien PFC Bonds, taken together, in the Supplemental Agreement providing for the issuance of such Series; provided that with respect to Tax Exempt Indebtedness (unless the Code permits otherwise) such requirement is not greater than the least of (i) the Maximum Series Annual Debt Service with respect to such Series of First Lien PFC Bonds, (ii) 125% of Average Annual Debt Service with respect to such Series of First Lien PFC Bonds and (iii) 10% of the initial principal amount of such Series of First Lien PFC Bonds.

"First Lien Sufficiency Covenant" means the requirement that (i) Unspent PFC Authority **plus** (ii) Projected Additional Pledged Revenue is at least equal to 105% of Projected Aggregate Debt Service with respect to all Outstanding First Lien PFC Bonds.

"Fiscal Year" means the twelve-month period commencing July 1 of any calendar year and ending June 30 of the succeeding calendar year or such other twelve month period as may be authorized by the Authority. In the event that a different fiscal year is authorized, references in the PFC Trust Agreement to July 1 or June 30 will refer, respectively, to the first and last day of such fiscal year.

"Fitch" means Fitch IBCA, Inc. and its successors.

"Fixed Rate Bonds" mean those PFC Bonds other than Capital Appreciation Bonds, Original Issue Discount Bonds or Balloon Maturity Bonds issued under a Supplemental Agreement in which the rate of interest on such PFC Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in the Supplemental Agreement authorizing their issuance, PFC Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

"Forecast PFC Rate Adjustment" means (i) any required reduction in the rate of the PFCs required to be collected by the Collecting Carriers that constitute PFC Pledged Revenue or (ii) any increase in the rate of the PFCs required to be collected by the Collecting Carriers if legislation has been enacted to permit such increase in the rate of the PFCs and if the Authority has taken all actions and has received all approvals required to impose such increased PFCs, but in each case only if and to the extent that such rate adjustment will affect the Pledged Portion of PFCs received by the Authority.

"Future First Lien PFC Bonds" mean PFC Bonds issued after the issuance of the 1999 PFC Bonds as First Lien PFC Bonds pursuant to a Supplemental Agreement.

"Future First Lien PFC Refunding Bonds" mean Refunding PFC Bonds issued in the future as First Lien PFC Bonds pursuant to a Supplemental Agreement to refund previously issued First Lien PFC Bonds.

"Government Obligations" mean direct general obligations of, or obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Independent Aviation Consultant" means a Consultant nationally recognized in aviation matters.

"Independent Aviation Consultant's Certificate" means a Certificate executed by an Independent Aviation Consultant and stating that

(a) the First Lien Sufficiency Covenant is estimated to be met upon an issuance of a Series of Future First Lien PFC Bonds or, as the case may be, upon a proposed reduction of the Pledged Portion under paragraph (c) of the heading "Pledge Effected by the PFC Trust Agreement".

(b) in each Fiscal Year commencing with the first full Fiscal Year following the date of issuance of such Series of Future First Lien PFC Bonds or, as the case may be, the reduction of the Pledged Portion and ending with the last full Fiscal Year preceding the Base Year (defined below), (i) the sum of the amount of Pledged Revenue estimated to be collected in such Fiscal Year, including without limitation the amount of interest earnings projected to be received in such Fiscal Year on moneys deposited in the PFC Capital Fund but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than (ii) 150% of an amount equal to the Annual Debt Service payable in such Fiscal Year with respect to all First Lien PFC Bonds to be Outstanding after the issuance of the proposed Future First Lien PFC Bonds or, as the case may be, the reduction of the Pledged Portion **minus** projected interest earnings for such Fiscal Year on moneys deposited in the Debt Service Fund, the Debt Service Reserve Fund and (to the extent required to be transferred to the Debt Service Fund) the Project Fund and **minus** capitalized interest available to be used to pay interest on First Lien PFC Bonds in such Fiscal Year; and

(c) in a Fiscal Year selected by the Independent Aviation Consultant which is not earlier than the third full Fiscal Year following the date of issuance of such Series of Future First Lien PFC Bonds or, as the case may be, the reduction of the Pledged Portion (the "Base Year"), the amount of Pledged Revenue to be collected in such Fiscal Year, including without limitation the amount of interest earnings projected to be received in such Fiscal Year on moneys deposited in the PFC Capital Fund but excluding projected interest earnings on the Debt Service Fund, is estimated to be not less than 150% of Maximum Adjusted Annual Debt Service on all First Lien PFC Bonds to be Outstanding after the issuance of the proposed Future First Lien PFC Bonds or, as the case may be, the reduction of the Pledged Portion;

provided, however, that in computing the amount of Pledged Revenue for the purposes of paragraphs (a), (b) and (c) above, the Independent Aviation Consultant:

(1) will take into account any Forecast PFC Rate Adjustment on the assumption that such Forecast PFC Rate Adjustment will be in effect during the period covered by such Certificate;

(2) may take into account any Projected Additional Pledged Revenue estimated to be received during the period covered by such Certificate; and

(3) will take into account projections of PFC Pledged Revenue deemed reasonable by the Independent Aviation Consultant, based upon the methodology set forth in the Certificate taking into account any projected change in the number of enplanements during the period covered by such Certificate; and

provided, further, that for the purposes of paragraphs (b) and (c) above, projected interest earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place and scheduled to remain in place through the Fiscal Year for which such projection is made or, if and to the extent that such a rate of interest does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2 1/2%) per annum.

"Investment Securities" mean and include any of the following securities:

(a) Government Obligations;

(b) certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which

are backed by the full faith and credit of the United States, which certificates or receipts are issued directly by the United States Department of Treasury or by the agency or instrumentality issuing such obligations or which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;

(c) bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Mortgage Corporation; Student Loan Marketing Association; Federal Home Loan Banks; Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; Federal Land Banks; or any other agency or instrumentality of the United States of America;

(d) all other obligations issued or fully and unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;

(e) (i) interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution, provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation, or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution, provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in any of the three highest rating categories of such Rating Agency;

(f) repurchase agreements collateralized by securities described in subparagraph (a), (b), (c) or (d) above with any primary dealer recognized by a Federal Reserve Bank or any commercial bank the long-term unsecured debt of which (or of the corporate parent of which), in either case, is rated in one of the three highest long-term rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in any of the three highest rating categories of such Rating Agency; provided that (i) a specific written repurchase agreement governs the transaction, (ii) the securities are held, free and clear of any lien, by the Authority or the Trustee, as the case may be, or an independent third party acting solely as agent for the Authority or the Trustee, and such third party is (1) a Federal Reserve Bank, or (2) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million, and the Authority or the Trustee will have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Authority or the Trustee, (iii) if the repurchase agreement has a term of more than 30 days then the Authority or the Trustee will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102% and (v) the repurchase agreement shall provide that if during its term the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, the provider must, at the direction of the Authority or the Trustee, within ten days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium charged to the Authority or the Trustee;

(g) money market funds registered under the federal Investment Company Act of 1940 and rated in the highest rating category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest category of such Rating Agency;

(h) commercial paper rated in the highest rating category by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the highest category of such Rating Agency;

(i) shares of investment companies or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above;

(j) Advance-Refunded Municipal Bonds;

(k) short-term or long-term obligations the interest on which is excludable from gross income for federal income tax purposes and that are rated in any of the two highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and if rated by any other Rating Agency, rated in any of the two highest rating categories of such Rating Agency, or shares of investment companies or cash equivalents which are authorized to invest primarily in such obligations;

(l) participation units in a combined investment fund created under Section 38A of Chapter 29 of the General Laws of the Commonwealth;

(m) investment contracts with, or guaranteed by, banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the two highest rating categories by S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, rated in the two highest rating categories of such Rating Agency; provided, that each such contract shall provide that if during its term the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, the provider must, at the direction of the Authority or the Trustee, within ten days of receipt of such direction, terminate such contract, with no penalty or premium charged to the Authority or the Trustee; and

(n) any other investment authorized pursuant to an amendment or supplement to the PFC Trust Agreement as described under the heading "Supplemental Agreements Not Requiring Consent of Holders" below.

Obligations of any Fiduciary or an affiliate thereof may be Investment Securities, provided that they otherwise qualify.

"Maximum Adjusted Annual Debt Service" means the highest Annual Debt Service with respect to all First Lien PFC Bonds to be Outstanding after the issuance of a proposed Series of Future First Lien PFC Bonds, **minus** projected annual interest earnings on the Debt Service Fund and the Debt Service Reserve Fund; provided that for the purpose of this definition such earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place and scheduled to remain in place for so long as the applicable moneys will be on deposit in such Funds or, if and to the extent that such a rate of interest does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2 1/2%) per annum; and provided, further, that in the event that the Authority will have provided in a Supplemental Agreement that the principal balance of a Series Account of the Debt Service Reserve Fund will be applied to pay principal of the applicable Series of First Lien PFC Bonds on the final maturity date thereof, then for the purpose of calculating Maximum Adjusted Annual Debt Service the Annual Debt Service on such Series of First Lien PFC Bonds for the Fiscal Year in which such final maturity occurs will be reduced by the amount of the required principal balance (or, if less, the actual principal balance) of such Series Account (excluding from such principal balance the amount of any Financial Guaranty maintained in such Series Account). (The Authority has so provided with respect to the 1999 PFC Bonds and the 2007 PFC Bonds.)

"Maximum Series Annual Debt Service" means with respect to any specified single or multiple Series of First Lien PFC Bonds the highest Annual Debt Service with respect to the First Lien PFC Bonds of such Series Outstanding.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Noise Act" means the Airport Noise and Capacity Act of 1990, as amended.

"NonPFC-Funded Subaccount" means any Subaccount of that name established pursuant to the PFC Trust Agreement or any Supplemental Agreement.

"Option Bonds" mean PFC Bonds which by their terms may be tendered by and at the option of the owner thereof for purchase or payment by the Authority prior to the stated maturity thereof.

"Original Issue Discount Bonds" mean PFC Bonds which are sold at an initial public offering price of less than 90% of their face value and which are specifically designated as Original Issue Discount Bonds in the Supplemental Agreement authorizing their issuance.

"Outstanding", when used with reference to PFC Bonds or any other Secured Indebtedness, means, as of any date, all PFC Bonds or other evidences of Secured Indebtedness theretofore or thereupon being authenticated and delivered under the PFC Trust Agreement except:

(a) any PFC Bonds or other evidences of Secured Indebtedness canceled by the Trustee at or prior to such date;

(b) any PFC Bond or other evidence of Secured Indebtedness (or portion thereof) for the payment or redemption of which there will be set aside and held in trust hereunder either:

(i) moneys in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest,

(ii) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications, as are necessary to provide moneys (whether as principal or interest) in an amount sufficient to pay when due the Principal Installments or Redemption Price thereof, together with all accrued interest, or

(iii) any combination of (i) and (ii) above,

and, if such PFC Bond or other evidence of Secured Indebtedness or portion thereof is to be redeemed, for which notice of redemption has been given as provided in the PFC Trust Agreement or the applicable Supplemental Agreement, or provision satisfactory to the Trustee has been made for the giving of such notice;

(c) any PFC Bond or other evidence of Secured Indebtedness in lieu of or in substitution for which other PFC Bonds or other evidences of Secured Indebtedness have been authenticated and delivered; and

(d) any PFC Bond or other evidence of Secured Indebtedness deemed to have been paid as provided in the PFC Trust Agreement.

"Owner" or "holder" or words of similar import means, when used with reference to a PFC Bond or another evidence of Secured Indebtedness, the person in whose name the PFC Bond or other evidence of Secured Indebtedness is registered.

"Parity Bond Anticipation Notes" mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Pledged Revenue on a parity with the lien created for First Lien PFC Bonds by the PFC Trust Agreement.

"Parity Reimbursement Obligation" means a Reimbursement Obligation the payment of which is secured by a pledge of, and a lien on, the Pledged Revenue on a parity with the lien created by the PFC Trust Agreement.

"Paying Agent" means any paying agent for the PFC Bonds of any Series, and its successor or successors and any other person which may at any time be substituted in its place pursuant to the PFC Trust Agreement.

"Payment Date" means, with respect to any Series of PFC Bonds, each date on which interest or a Principal Installment or both will be due and payable on any of such Outstanding PFC Bonds according to their respective terms.

"PFC Authority" means the Records of Decision dated February 5, 1998, January 27, 1997 and August 21, 1993 issued to the Authority by the FAA pursuant to the PFC Act and PFC Regulations, as the same may be amended or supplemented from time to time, and any other record of decision (and amendments and supplements) issued by the FAA relating to PFCs imposed or to be imposed by the Authority at the Airport.

"PFC Bonds" mean the bonds, notes, or other evidences of indebtedness issued from time to time in Series pursuant to and under authority of the PFC Trust Agreement.

"PFC-Funded Subaccount" means any Subaccount of that name established pursuant to the PFC Trust Agreement or any Supplemental Agreement.

"PFC Pledged Revenue" means that portion equal to the Pledged Portion of the revenue received by the Authority from time to time from PFCs imposed by the Authority at the Airport pursuant to PFC Authority, including without limitation investment income with respect thereto earned after the proceeds of PFCs have been remitted to the Authority by the Collecting Carriers.

"PFC Regulations" mean Part 158 of the Federal Aviation Regulations (14 CFR Part 158), as amended from time to time, and any other regulation issued with respect to the PFC Act.

"Pledged Portion" means from and after the date of delivery of the 2007 PFC Bonds all revenue received by the Authority from Collecting Carriers attributable to the first $4.50 of PFCs collected from each passenger (net of the portion of such PFCs permitted to be retained by the Collecting Carriers pursuant to the PFC Regulations), including without limitation investment income with respect thereto earned after the proceeds of PFCs have been remitted to the Authority by the Collecting Carriers, and thereafter means the portion of collected PFCs from time to time established by the Authority pursuant to the PFC Trust Agreement.

"Pledged Revenue" means PFC Pledged Revenue and Additional Pledged Revenue, if any has been pledged to secure the PFC Bonds.

"Principal Installment" means, as of any date of calculation and with respect to any Series of PFC Bonds, so long as any obligations of such Series are Outstanding, (i) the principal amount of obligations of such Series due on a certain future date for which no Sinking Fund Installments have been established or (ii) the unsatisfied balance of any Sinking Fund Installments due on a certain future date for obligations of such Series. For the purposes of the preceding sentence, "principal amount" will include (x) any amount designated in, or determined pursuant to, the applicable Supplemental Agreement, as the "principal amount" with respect to any PFC Bonds which do not pay full current interest for all or any part of their term, (y) the Tender Option Price of any Option Bonds which may be tendered to the Authority for purchase or payment prior to the stated maturity thereof in accordance with the terms of the Supplemental Agreement authorizing such Option Bonds, unless such amount is secured by a Credit Facility which is not in default, and (z) the principal amount of any Parity Reimbursement Obligation. Principal Installment will, however, not include the principal of Bond Anticipation Notes.

"Project" or "Projects"" mean any additions, betterments, extensions, other improvements of or related to the Airport or other costs incurred for any purpose at or related to the Airport from time to time (whether or not located at the Airport), including, without limitation, the acquisition of land, which will be authorized by the FAA and will constitute an "approved project," as such term is defined in PFC Regulations Section 158.3.

"Projected Additional Pledged Revenue" means anticipated receipts of Additional Pledged Revenue provided that each Rating Agency then maintaining a rating on First Lien PFC Bonds has confirmed that the inclusion of such Additional Pledged Revenue will not in and of itself cause such Rating Agency to reduce or withdraw its underlying rating on the First Lien PFC Bonds then Outstanding, unless such rating confirmation has previously been provided.

"Projected Aggregate Debt Service" means the aggregate amount of Annual Debt Service for the period commencing on the date of calculation through the scheduled maturity(ies) of one or more Series of PFC Bonds or through any optional redemption date together with premium, if any, applicable to such one or more Series of PFC Bonds, in each case calculated with the goal of minimizing the aggregate dollar amount necessary to pay and redeem such Series of PFC Bonds whether at maturity or redemption prior to stated maturity, **minus** amounts on deposit as of the calculation date in the Debt Service Fund and the Debt Service Reserve Fund created under the PFC Trust Agreement and available for the payment of debt service on such Series, and **minus** projected interest earnings on the Project Fund and the Debt Service Reserve Fund available for the payment of debt service on such Series, provided that for the purpose of this definition such earnings will be calculated at the rate or rates of interest provided in investment contracts currently in place for as long as the applicable moneys will be on deposit in such Funds and subject to such contracts or, for as long as and to the extent that such an investment contract does not exist for any Fund or portion of the moneys therein, the rate of two and one-half percent (2½%) per annum.

"Qualified Swap" means an interest rate exchange, cap or other hedge agreement (a) whose Designated Debt is all or part of a particular Series of PFC Bonds, (b) which has a term not greater than the term of the Designated Debt and (c) which has been designated in writing to the Trustee by the Authority as a Qualified Swap with respect to such Series of PFC Bonds.

"Qualified Swap Provider" means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Swap are (a) guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated by each of S&P and Moody's (if such rating agencies are Rating Agencies) and, if rated by any other Rating Agency, by such Rating Agency in one of the three highest rating categories of each such Rating Agency, respectively, or (b) fully secured by obligations described in clause (a) or (c) of the definition of Investment Securities which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

"Rating Agencies" mean Moody's, S&P and Fitch and their respective successors and assigns if such rating agencies are maintaining a rating on the PFC Bonds at the request of the Authority, and will also include any other rating agency nationally recognized for skill and expertise in rating the credit of obligations such as the PFC Bonds and which is maintaining a rating on the PFC Bonds at the request of the Authority.

"Rebate Fund Requirement" means, as of any date of calculation, an amount equal to the aggregate of the amounts, if any, specified in each Supplemental Agreement authorizing the issuance of a Series of Tax Exempt Indebtedness as the amount required to be maintained in the Rebate Fund with respect to such Tax Exempt Indebtedness.

"Redemption Price" means, when used with respect to a PFC Bond or portion thereof, the principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption thereof pursuant to the PFC Trust Agreement.

"Refunding PFC Bond" means any PFC Bond authenticated and delivered on original issuance pursuant to the PFC Trust Agreement for the purpose of refunding any Outstanding PFC Bonds, or thereafter authenticated and delivered in lieu of or substitution for such PFC Bond pursuant to the PFC Trust Agreement.

"Regularly Scheduled Qualified Swap Payments" mean the regularly scheduled payments under the terms of a Qualified Swap which are due absent any termination, default or dispute in connection with such Qualified Swap.

"Reimbursement Obligation" means the obligation of the Authority described in the "Credit Facilities" provision of the PFC Trust Agreement to reimburse the issuer of a Credit Facility for amounts paid by such issuer thereunder together with interest thereon, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument.

"S&P" means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., and its successors.

"Secured Indebtedness" means all indebtedness issued under the PFC Trust Agreement and any Supplemental Agreement, including without limitation the PFC Bonds, Bond Anticipation Notes, indebtedness in respect of Qualified Swaps and Reimbursement Obligations.

"Series" or "Series of PFC Bonds" mean any separate Series of PFC Bonds issued pursuant to the PFC Trust Agreement. A Series of PFC Bonds may be First Lien PFC Bonds or Subordinate Lien PFC Obligations authenticated and delivered on original issuance and identified pursuant to the Supplemental Agreement authorizing such PFC Bonds or other Secured Indebtedness as a separate Series of PFC Bonds or other Secured Indebtedness and any PFC Bonds or other Secured Indebtedness thereafter authenticated and delivered in lieu of or in substitution therefor regardless of variations in maturity, interest rate or other provisions.

"Series Account" means, with respect to the Debt Service Reserve Fund or the Subordinated Debt Service Reserve Fund, one or more of the Series Accounts established by a Supplemental Agreement pursuant to the PFC Trust Agreement.

"Series Project or Projects" means, with respect to a Series of PFC Bonds, the Project or Projects or elements or phases thereof which are to be financed by the proceeds of such Series of PFC Bonds, as stated in the Supplemental Agreement providing for the issuance of such Series of PFC Bonds or otherwise indicated as the Authority determines.

"Sinking Fund Installment" means, as of any particular date of calculation, the amount required by the PFC Trust Agreement or any Supplemental Agreement to be paid by the Authority on a future date for the retirement of the principal amount of Outstanding First Lien PFC Bonds or Subordinate Lien PFC Obligations which are stated to mature subsequent to such future date, but does not include any amount payable by the Authority by reason only of the maturity of a First Lien PFC Bond or Subordinate Lien PFC Obligation.

"Subaccount" means one of the separate Subaccounts established within an Account or Fund, with respect to a particular Series of PFC Bonds.

"Subordinated Debt Service Reserve Fund Requirement" means the aggregate of the amounts, if any, required to be deposited in the Subordinated Debt Service Reserve Fund pursuant to all Supplemental Agreements authorizing the issuance of Subordinate Lien PFC Obligations.

"Subordinated Parity Bond Anticipation Notes" mean Bond Anticipation Notes the interest on which is payable from and secured by a pledge of, and a lien on, the Pledged Revenue on a parity with the lien for Subordinate Lien PFC Obligations created by the PFC Trust Agreement.

"Subordinate Lien PFC Obligations" mean bonds or other indebtedness issued or incurred pursuant to the PFC Trust Agreement and will also mean any Subordinated Parity Bond Anticipation Notes and any Parity Reimbursement Obligations incurred with respect to Subordinate Lien PFC Obligations.

"Supplemental Agreement" means an agreement between the Authority and the Trustee authorizing the issuance of a Series of First Lien PFC Bonds or Subordinate Lien PFC Obligations or otherwise amending or supplementing the PFC Trust Agreement, executed and delivered in accordance with the PFC Trust Agreement.

"Tax Exempt Indebtedness" means Secured Indebtedness the interest on which is excluded from gross income of the holder thereof for federal income tax purposes which was accompanied by a favorable Bond Counsel's Opinion regarding such exclusion on the date of issuance of such Secured Indebtedness.

"Tender Option Price" means, with respect to any Option Bond tendered for purchase or payment in accordance with the Supplemental Agreement authorizing such Option Bond, an amount equal to the principal amount of such Option Bond.

"Unspent PFC Authority" means the aggregate dollar amount of revenue authorized to be collected by the Authority under PFC Authority **minus** the portion, if any, of such revenue which is excluded or estimated to be excluded from the Pledged Portion, **minus** the dollar amount of Costs of Projects paid to date from PFC Pledged Revenue or legally obligated to date to be paid from PFC Pledged Revenue (including debt service paid to date on First Lien PFC Bonds but excluding Projected Aggregate Debt Service with respect to First Lien PFC Bonds).

"Variable Rate Indebtedness" means, as of any date of determination, any Secured Indebtedness on which the interest rate borne thereby may vary during any part of its remaining term.

Interpretation: In the PFC Trust Agreement, unless the context otherwise requires:

(1) The PFC Trust Agreement is governed by and construed in accordance with the applicable laws of the Commonwealth.

(2) Any reference in the PFC Trust Agreement to generally accepted accounting principles refers to generally accepted governmental accounting principles.

(3) Any reference in the PFC Trust Agreement to the exclusion of interest on any Indebtedness from gross income of the holder thereof for federal income tax purposes refers only to obligations accompanied by a favorable Bond Counsel's Opinion regarding such exclusion on the date of issuance of such Indebtedness.

(4) References in the PFC Trust Agreement to the rating categories of the Rating Agencies refer to broad ratings categories (e.g., "Aa" or "AA") without reference to qualifying suffixes such as numbers or pluses and minuses.

Nothing in the PFC Trust Agreement expressed or implied is intended or will be construed to confer upon, or to give to, any person, other than the Authority, the Fiduciaries and the holders any right, remedy or claim under or by reason of the PFC Trust Agreement of any covenant, condition or stipulation thereof; provided, that the FAA will be a third party beneficiary under the PFC Trust Agreement with respect to its rights under the PFC Trust Agreement. All the covenants, stipulations, promises and agreements in the PFC Trust Agreement

contained by and on behalf of the Authority, will be for the sole and exclusive benefit of the Authority, the Fiduciaries and the holders; provided, that the FAA will be a third party beneficiary under the PFC Trust Agreement with respect to its rights under the PFC Trust Agreement.

The Pledge Effected by the PFC Trust Agreement

(a) Under the PFC Trust Agreement, there are pledged for the payment of the First Lien PFC Bonds, in accordance with their terms and the provisions of the PFC Trust Agreement, subject only to the provisions of the PFC Trust Agreement permitting the application thereof for or to the purposes and on the terms and conditions therein set forth: (i) all Pledged Revenue and (ii) all moneys or securities in any of the Funds, Accounts and Subaccounts established under the PFC Trust Agreement (except the Rebate Fund, the Note Payment Fund and the Subordinated Debt Service Reserve Fund) together with the investment earnings thereon, except to the extent such earnings are required to be deposited in the Rebate Fund pursuant to a Supplemental Agreement.

(b) Subject only to the prior pledge created for the payment of the First Lien PFC Bonds as described in the preceding paragraph (a), and on the terms and conditions set forth therein with respect to such prior pledge, the property described in clauses (i) and (ii) of said paragraph (a) (except moneys or securities in the Debt Service Fund and the Debt Service Reserve Fund) and the Subordinated Debt Service Reserve Fund are further pledged under the PFC Trust Agreement to the payment of the Subordinate Lien PFC Obligations.

(c) From time to time the Authority may by resolution, a copy of which promptly will be provided to the Trustee and the FAA, modify the Pledged Portion as described in this paragraph (c). The Authority may reduce the Pledged Portion to the extent that the Authority has received an Independent Aviation Consultant's Certificate giving effect to such reduction. The Authority may increase the Pledged Portion at any time, retaining its right to reduce the Pledged Portion at a later time in accordance with the preceding sentence.

Conditions Precedent to Delivery of a Series of First Lien PFC Bonds

The First Lien PFC Bonds of a Series (including without limitation the 1999 PFC Bonds and the 2007 PFC Bonds) will be executed by the Authority for issuance and delivered to the Trustee and thereupon will be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of certain documents and opinions relating to such Bonds and:

> (a) except in the case of the 1999 PFC Bonds, any Series of Refunding PFC Bonds issued pursuant to the PFC Trust Agreement, any Series of Completion PFC Bonds with respect to which the conditions related in subsection (c) below are satisfied, or any Parity Bond Anticipation Notes, either a Designated Authority Representative's Certificate or an Independent Aviation Consultant's Certificate, in each case dated no earlier than 30 days prior to the delivery of the proposed Series of Future First Lien PFC Bonds;
>
> (b) a Certificate of an Authorized Representative of the Authority, dated as of the date of such delivery, stating that there is no Event of Default by the Authority with respect to the performance of any of the covenants, conditions, agreements or provisions contained in the PFC Trust Agreement, provided, however, that the Authority need deliver no such certification with respect to compliance with "First Lien Sufficiency Covenant" Section of the PFC Trust Agreement for a Series of Refunding PFC Bonds issued as described under the heading "Conditions Precedent to Delivery of Refunding PFC Bonds" below;
>
> (c) in the case of any Series for which Capitalized Interest has been provided by the Supplemental Agreement authorizing such Series (i) the written direction of an Authorized Representative of the Authority to establish the Subaccount for such Series in the Capitalized Interest Account in the Debt Service Fund and (ii) the amount of the proceeds of such Series to be deposited therein; and

(d) in the case of any Series of Completion PFC Bonds which are First Lien PFC Bonds, a Certificate of the Authorized Representative of the Authority, dated as of the date of such delivery, stating (i) that the aggregate principal amount of the First Lien PFC Bonds of such Series does not exceed an amount equal to 15% of the aggregate principal amount of First Lien PFC Bonds previously issued for a Project the Costs of completing which are to be paid from the proceeds of such Completion PFC Bonds and reasonably allocated to such Project, (ii) that all of the proceeds of such prior First Lien PFC Bonds reasonably allocable to such Project have been or will be used to pay Costs of such Project, (iii) that the then-estimated Costs of such Project exceed the sum of the Costs of such Project already paid plus moneys available in the Project Fund therefor (including unspent proceeds of such prior First Lien PFC Bonds) and (iv) that the nature and purpose of such Project have not changed materially from those contemplated at the time of the issuance of the prior First Lien PFC Bonds.

Conditions Precedent to Delivery of a Series of Subordinate Lien PFC Obligations

The Subordinate Lien PFC Obligations of a Series shall be executed by the Authority for issuance and delivery to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the Authority or upon its order, but only upon the receipt by the Trustee of the items, opinions and certificates required by the provisions described under the heading "Conditions Precedent to Delivery of a Series of First Lien PFC Bonds", except for paragraph (a) under such heading and, insofar as they relate to compliance with the First Lien Sufficiency Covenant, the requirements of paragraph (b) under such heading, in each case restated as appropriate for the issuance of Subordinate Lien PFC Obligations, and any items, opinions or certificates required by the Supplemental Agreement authorizing such Subordinate Lien PFC Obligations; provided, however, that each Supplemental Agreement providing for a Series of Subordinate Lien PFC Obligations will provide that the maturity date of such Subordinate Lien PFC Obligations may not be accelerated (not including therein any indirect acceleration of the maturity thereof through Reimbursement Obligations to the provider of a Credit Facility occurring as a result of the mandatory tender for purchase of Subordinate Lien PFC Obligations) and shall further provide that following the occurrence of an Event of Default, neither PFC Pledged Revenue nor Additional Pledged Revenue, if any, may be used to pay the principal of or interest on Subordinate Lien PFC Obligations unless all payments required to be made with respect to matured principal of and interest on First Lien PFC Bonds have been fully paid and discharged.

Conditions Precedent to Delivery of Refunding PFC Bonds

One or more Series of Refunding PFC Bonds may be issued pursuant to the PFC Trust Agreement at any time to refund (including by purchase) any Outstanding PFC Bonds provided that either (i), but only with respect to Future First Lien PFC Refunding Bonds issued to refund First Lien PFC Bonds, the Average Annual Debt Service on such Future First Lien PFC Refunding Bonds will be no greater than the Average Annual Debt Service on the First Lien PFC Bonds to be refunded, provided that such provision will not prevent the Authority from issuing Future First Lien PFC Refunding Bonds that mature later than the First Lien PFC Bonds to be refunded or (ii) the requirements of clause (a) under the heading "Conditions Precedent to Delivery of a Series of First Lien PFC Bonds," or with respect to an issue of Subordinate Lien PFC Obligations, the requirements of any Supplemental Agreement with respect to the issuance of additional Subordinate Lien PFC Obligations, will have been satisfied after giving effect to the proposed refunding, all as shown in a Designated Authority Representative's Certificate or an Independent Aviation Consultant's Certificate delivered to the Trustee prior to the authentication and delivery of such Series of Refunding PFC Bonds; provided, however, that Future First Lien Refunding Bonds may be issued for the purpose of refunding (including by purchase) at any time within one year prior to maturity any First Lien PFC Bonds for the payment of which sufficient PFC Pledged Revenue or Additional Pledged Revenue, if any, are not available without the requirement of a Designated Authority Representative's Certificate or Independent Aviation Consultant's Certificate. Refunding PFC Bonds will be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds, Accounts and Subaccounts required by the provisions of the Supplemental Agreement authorizing such Refunding PFC Bonds.

Bond Anticipation Notes

Whenever the Authority authorizes the issuance of a Series of PFC Bonds (without the necessity for the Authority to have entered into a Supplemental Agreement providing for such issue or to have satisfied the conditions set for in the PFC Trust Agreement), the Authority may, by resolution, authorize the issuance of notes (and renewals thereof) in anticipation of such PFC Bonds. The principal of and interest on such notes and renewals thereof will be payable from the proceeds of such notes, from the proceeds of the sale of the Series of PFC Bonds in anticipation of which such notes are issued or from the PFC Capital Fund. The proceeds of such PFC Bonds may be pledged for the payment of the principal of and interest on such notes and any such pledge will have a priority over any other pledge of such proceeds created by the PFC Trust Agreement. The Authority may secure the payment of the interest on such notes by a pledge that is on a parity with the pledge securing all First Lien PFC Bonds, in which event such interest will be payable from the Debt Service Fund or by a pledge which is on parity with the pledge securing Subordinate Lien Obligations, in which event such interest will be payable from the Subordinated Debt Service Fund (unless the issuer of a Credit Facility securing such notes otherwise agrees). The Authority may also pledge the Pledged Revenue and moneys on deposit in the PFC Capital Fund to the payment of the principal of such notes but such pledge will be subordinate to the pledge securing the payment of the PFC Bonds. The aggregate principal amount of Bond Anticipation Notes issued under the PFC Trust Agreement which may be Outstanding at any time is limited as and to the extent provided in the Enabling Act.

Credit Facilities

(a) In connection with the issuance of any Series of PFC Bonds hereunder, the Authority may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the Principal Installments, or Redemption Price or interest due or to become due on such PFC Bonds, providing for the purchase of such PFC Bonds by the issuer of such Credit Facility or providing funds for the purchase of such PFC Bonds by the Authority.

(b) The Authority may secure such Credit Facility by an agreement providing for the purchase of the Series of PFC Bonds secured thereby with such adjustments to the rate of interest, method of determining interest,

maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Agreement. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility, together with interest thereon (the "Reimbursement Obligation"); provided, however, that no Reimbursement Obligation will be deemed to be Outstanding, for purposes of the PFC Trust Agreement, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation may be secured by a pledge of, and a lien on, Pledged Revenue on a parity with the lien created by the PFC Trust Agreement (a "Parity Reimbursement Obligation"). Any such Parity Reimbursement Obligation will be deemed to be a PFC Bond of the Series of PFC Bonds to which the Credit Facility which gave rise to such Parity Reimbursement Obligation related.

(c) Any such Credit Facility will be for the benefit of and secure such Series of PFC Bonds or portion thereof as specified in the applicable Supplemental Agreement.

Establishment of Funds and Accounts

(a) The following Funds and Accounts are established by the PFC Trust Agreement:

- (i) Project Fund;
- (ii) PFC Pledged Revenue Fund;
- (iii) Debt Service Fund, containing a
  - (A) Principal Account;
  - (B) Interest Account;
  - (C) Redemption Account; and
  - (D) Capitalized Interest Account;
- (iv) Debt Service Reserve Fund;
- (v) Subordinated Debt Service Fund, containing a
  - (A) Principal Account;
  - (B) Interest Account;
  - (C) Redemption Account; and
  - (D) Capitalized Interest Account;
- (vi) Subordinated Debt Service Reserve Fund;
- (vii) Rebate Fund;
- (viii) Note Payment Fund; and
- (ix) PFC Capital Fund.

(b) Any Supplemental Agreement providing for the issue of a Series of PFC Bonds will establish separate Accounts or Subaccounts, which separate Accounts or Subaccounts will be designated by reference to the Series or issue with respect to which they are established.

(c) The Accounts so established pursuant to any Supplemental Agreement may contain separate Subaccounts in order to separate PFC Pledged Revenue from bond proceeds and other moneys of the Authority. In the event that the Authority determines at any time that it is not necessary to continue to separate such funds in such manner in order to comply with the PFC Act, PFC Regulations or PFC Authority, then the Authority may, at its option, combine, and direct the Trustee to combine, such Subaccounts.

Whenever under the PFC Trust Agreement or any Supplemental Agreement funds (including without limitation investment earnings) are transferred from a Fund, Account or Subaccount to a separate Fund, Account or Subaccount, the transfer will be made so that funds originating in a PFC-Funded Subaccount will be transferred to a PFC-Funded Subaccount (if available) and, likewise, that funds originating in a NonPFC-Funded Subaccount will be transferred to a NonPFC-Funded Subaccount (if available).

(d) Unless otherwise expressly provided in the PFC Trust Agreement, all of the Funds, Accounts and Subaccounts will be held by the Authority, except that (1) the Debt Service Fund, the Subordinated Debt Service Fund, the Debt Service Reserve Fund, the Subordinated Debt Service Reserve Fund and the Note Payment Fund will be held by the Trustee, (2) at the election of the Authority, any Fund initially held by the Authority or any Account or Subaccount therein may be transferred to the Trustee or any one or more Depositaries on such terms and for so long as the Authority may determine and (3) the Project Fund and the Rebate Fund will be held by the Trustee or any one or more Depositaries as the Authority may elect. In the event of (i) the receipt of an FAA Notice or (ii) the occurrence of an Event of Default and receipt of a demand from the Trustee pursuant to the PFC Trust Agreement, the Authority, within ten days of any such receipt, will transfer custody of and the balance on hand in the PFC Pledged Revenue Fund and the PFC Capital Fund to the Trustee.

Project Fund

There will be deposited from time to time in the Project Fund (i) any amounts required to be deposited therein pursuant to the PFC Trust Agreement or any Supplemental Agreement, (ii) any moneys transferred from the PFC Capital Fund at the direction of the Authority (which moneys will be held separately from Subaccounts in the Project Fund holding proceeds of the sale of any PFC Bonds or any earnings thereon) and (iii) any other amounts received by the Authority for or in connection with the Airport and determined by the Authority to be deposited in the Project Fund, which are not otherwise required to be applied in accordance with the PFC Trust Agreement. Except as otherwise provided in the provisions of the PFC Trust Agreement pertaining to the Project Fund, the Debt Service Fund, the Subordinated Debt Service Fund and investment of certain Funds, amounts in the Project Fund will be expended only to pay Costs of a Project pursuant to requisitions filed in accordance with the PFC Trust Agreement and the applicable Supplemental Agreement.

At any time from time to time the Trustee or the Depositary, as the case may be, may transfer amounts on deposit therein between a particular Subaccount within the Project Fund and another Subaccount within the Project Fund upon receipt of a Certificate of an Authorized Representative of the Authority requesting such transfer. If the Authority at any time cannot certify that it reasonably expects the moneys on deposit in any Subaccount of the Project Fund which constitute the proceeds of Tax Exempt Indebtedness to be expended for the Costs of a Project, then the moneys as to which the Authority cannot so certify will be transferred to the Redemption Account and held in a Subaccount therein and applied solely to the redemption of PFC Bonds of the Series to which such moneys relate on the first date on which such PFC Bonds may be called without premium (unless the Authority elects to call such PFC Bonds earlier at a premium).

In the event that it is not possible or practicable to accomplish all of the Projects identified with respect to a Series of PFC Bonds, the Authority may apply the proceeds of such Series to pay the Costs of such portion thereof or such other Projects as the Authority determines to be in the best interests of the Authority, subject in the case of Tax Exempt Indebtedness to the covenants of the Authority relating to the maintenance of tax-exempt status. Upon the completion of each Project and, to the extent permitted under the PFC Authority, at the completion of each stage or phase of a Project capable of being placed in operation prior to the completion of the entire Project, the Authority will file a certificate with the FAA in accordance with the PFC Authority, verifying that such Project or stage or phase is complete and that the proceeds of the applicable Series of PFC Bonds have been used in accordance with the PFC Trust Agreement, the PFC Regulations, the PFC Authority and the PFC Act to pay Costs of such Project or to pay costs of other Projects and, in the case of completion of a Series Project or Projects, that all remaining proceeds, if any, of such Series have been transferred to the Debt Service Fund or, as applicable, the Subordinated Debt Service Fund to be used to pay debt service on such Series of PFC Bonds or, with the consent of the FAA, are being retained in the Project Fund to pay Costs of other Projects. All or a portion of the amounts at any time on deposit in the Project Fund will be transferred to the Debt Service Fund or, if applicable, the Subordinated Debt Service Fund if and to the extent directed by the FAA following an FAA Notice but only to the extent such proceeds relate to the Project that is the subject of the FAA Notice.

Deposit of Pledged Revenue

Except as otherwise described below under the heading "Investment of Certain Funds" with respect to certain investment earnings, the Authority will promptly deposit all PFC Pledged Revenue and Additional Pledged Revenue, as collected, into the PFC Pledged Revenue Fund; provided that receipts of the Authority in respect of PFCs which are not included in the Pledged Portion will not be deposited in the PFC Pledged Revenue Fund and are not subject to the restrictions of the PFC Trust Agreement.

Flow of Funds from the PFC Pledged Revenue Fund

(a) On the first Business Day following the last day of each month the Authority (or, if the Trustee is then holding the PFC Pledged Revenue Fund, the Trustee) will, after making any transfers required pursuant to the Debt Service Reserve Fund and Subordinated Debt Service Reserve Fund provisions of the PFC Trust Agreement, from the available amounts on deposit in the PFC Pledged Revenue Fund, make the following deposits in the following order:

(i) *To the Debt Service Fund,*

(A) on a pro rata basis the amount necessary to make up any deficiency in any Subaccount resulting from an increase in the applicable interest rate on any First Lien PFC Bonds constituting Variable Rate Indebtedness over the rate which was assumed in calculating the amount required for a prior deposit described in subparagraph (B) below;

(B) on a pro rata basis to each PFC-Funded Subaccount of the Interest Account, after taking into account any moneys transferred or to be transferred from the corresponding Subaccounts of the Capitalized Interest Account if such have been established for the applicable Series, the amount necessary to increase the amount on deposit in each such Subaccount and in the NonPFC-Funded Subaccount of the Interest Account established for the same Series of First Lien PFC Bonds so that it equals interest next coming due on Outstanding First Lien PFC Bonds of the applicable Series accrued and unpaid and to accrue to and including the last day of the next succeeding month (assuming, in the case of Variable Rate Indebtedness, no further adjustments in the applicable interest rate);

(C) on a pro rata basis to each PFC-Funded Subaccount of the Principal Account the amount necessary to increase the amount on deposit in each such Subaccount and in the NonPFC-Funded Subaccount of the Principal Account established for the same Series of First Lien PFC Bonds so that it equals that portion of the Principal Installment next coming due on Outstanding First Lien PFC Bonds of the applicable Series accrued and unpaid and to accrue (assuming such Principal Installment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month; provided, however, that no deposit will be required to be made with respect to a First Lien PFC Bond prior to twelve months before the next Principal Installment coming due on such First Lien PFC Bond or to the extent that pursuant to the terms of a Supplemental Agreement such Principal Installment or a portion thereof is to be paid from such funds in the Debt Service Reserve Fund available for such purpose;

(D) on a pro rata basis to each PFC-Funded Subaccount of the Redemption Account the amount, if any, necessary to increase the amount on deposit in each such Subaccount and in the NonPFC-Funded Subaccount of the Redemption Account established for the same Series of First Lien PFC Bonds so that it equals the Redemption Price of Outstanding First Lien PFC Bonds of the applicable Series then called for redemption (other than from Sinking Fund Installments) as of any date on or prior to the last day of the next succeeding month, after taking into account amounts on deposit in the applicable Subaccounts within the Principal Account, if any, available to pay such First Lien PFC Bonds called for redemption; and

(E) on a pro rata basis to each PFC-Funded Subaccount of the Interest Account established with respect to Regularly Scheduled Qualified Swap Payments that are on a parity with a Series of First Lien PFC Bonds constituting Designated Debt, the amount (if any) necessary to increase the amount on deposit in each such Subaccount and in the NonPFC-Funded Subaccount of the Interest Account established for the same Regularly Scheduled Qualified Swap Payments so that it equals that portion of the Regularly Scheduled Qualified Swap Payment next coming due with respect to such Series of Designated Debt accrued and unpaid and to accrue (assuming such Regularly Scheduled Qualified Swap Payment accrues on the same basis as simple interest on a debt) to and including the last day of the next succeeding month.

The Authority will not be required to make any payments into the Debt Service Fund with respect to any Series of First Lien PFC Bonds when the aggregate amount of money in the related Subaccounts of the Debt Service Fund and in the related Account of the Debt Service Reserve Fund is at least equal to the amount required to defease the lien of the PFC Trust Agreement granted to secure payment of such Series of First Lien PFC Bonds (and, in the event that such Series of First Lien PFC Bonds is combined with one or more other Series of First Lien PFC Bonds for the purpose of determining a First Lien Series Reserve Requirement, such condition obtains for all such Series.)

(ii) *To the Debt Service Reserve Fund,* for deposit to the PFC-Funded Subaccount in each Series Account therein, if any, the deposit required by the applicable Supplemental Agreement. With respect to the 1999 PFC Bonds, such deposit shall equal one-twelfth of the amount, if any, necessary as determined as of the first day of the current Fiscal Year to increase the aggregate amount on deposit in the Series 1999A&B Account of the Debt Service Reserve Fund to an amount equal to the First Lien Series Reserve Requirement for the 1999 PFC Bonds. With respect to the 2007 PFC Bonds, such deposit shall equal one-twelfth of the amount, if any, necessary as determined as of the first day of the current Fiscal Year to increase the aggregate amount on deposit in the Series 2007B&D Account of the Debt Service Reserve Fund to an amount equal to First Lien Series Reserve Requirement for the 2007 PFC Bonds.

(iii) *To the Subordinated Debt Service Fund,* deposits determined with respect to Subordinate Lien PFC Obligations in the same manner as the deposits set forth in paragraph (i) above with respect to First Lien PFC Bonds; provided, however, that notwithstanding the foregoing provisions of this paragraph (iii), the amounts required to be deposited into the Subordinated Debt Service Fund with respect to each Series of Subordinate Lien PFC Obligations will be in accordance with any different deposit requirements set forth in the Supplemental Agreement authorizing such Series.

(iv) *To the Subordinated Debt Service Reserve Fund,* the amount, if any, necessary to increase the amount on deposit in the Common Account therein, if any, or any Series Account therein to the level required by any Supplemental Agreement.

(v) *To the Rebate Fund,* the amount necessary to make the amount on deposit therein equal to the Rebate Fund Requirement, if any, determined in accordance with the applicable Supplemental Agreement.

(vi) Subject to the provisions of the next paragraph, *to the PFC Capital Fund*, any moneys remaining after making the deposits set forth above.

(b) On any day on which deposits are to be made pursuant to paragraph (a) above, after making the deposits described in paragraphs (a)(i) through (v), the Authority may (but will have no obligation to) retain all or any portion of the remaining moneys in the PFC Pledged Revenue Fund to provide additional moneys for deposits described in paragraph (a) during the next month or thereafter.

Debt Service Fund

(a) The Trustee will, for each Series of First Lien PFC Bonds Outstanding, pay (i) on each Payment Date with respect to a Series of First Lien PFC Bonds, (A) from the moneys on deposit in the applicable Subaccounts within the Principal Account of the Debt Service Fund the amounts required for the payment of the Principal Installments, if any, due on such Payment Date and (B) from the moneys on deposit in the applicable Subaccounts within the Interest Account of the Debt Service Fund, including the moneys credited to the Subaccounts, if any, established for such Series in the Capitalized Interest Account in such Fund, the interest due on such Payment Date; (ii) on any redemption date other than for sinking fund redemption, (A) from the applicable Subaccounts within the Interest Account of the Debt Service Fund the amounts required for the payment of accrued interest on First Lien PFC Bonds to be redeemed on such date unless the payment of such accrued interest will be otherwise provided and (B) from the applicable Subaccounts within the Redemption Account of the Debt Service Fund, the amounts required for the payment of principal of and premium, if any, on First Lien PFC Bonds to be redeemed (other than by sinking fund redemption); and (iii) on any date of purchase (A) from the applicable Subaccounts within the Principal Account of the Debt Service Fund, the amounts required for the payment of principal of any First Lien PFC Bonds to be purchased to the extent sufficient amounts are not available therefor under a Credit Facility in accordance with the applicable Supplemental Agreement, and (B) from the applicable Subaccounts within the Interest Account of the Debt Service Fund, any amounts required for the payment of accrued interest on First Lien PFC Bonds to be purchased to the extent sufficient amounts are not available therefor under a Credit Facility in accordance with the applicable Supplemental Agreement or unless the payment of such accrued interest will be otherwise provided. Moneys in the Debt Service Fund shall also be transferred to the Note Payment Fund and applied to the payment of interest on Parity Bond Anticipation Notes to the extent provided in any Supplemental Agreement authorizing such notes. To the extent that payments under any Credit Facility are used to pay principal and/or interest on a Series of First Lien PFC Bonds, amounts on deposit in the corresponding Account or Accounts of the Debt Service Fund shall be used, on the date scheduled for such payment of principal and/or interest, to reimburse the Credit Facility provider in accordance with the applicable Credit Facility.

(b) The amounts accumulated in the applicable Subaccounts within the Principal Account of the Debt Service Fund for each Sinking Fund Installment of First Lien PFC Bonds will, at the direction of an Authorized Representative of the Authority, be applied (together with amounts in the applicable Subaccounts within the Interest Account of the Debt Service Fund with respect to interest on the First Lien PFC Bonds for which such Sinking Fund Installment was established) by the Trustee prior to the 45th day preceding the due date of such Sinking Fund Installment as follows:

(1) to the purchase of First Lien PFC Bonds of the Series and maturity for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such First Lien PFC Bonds when such First Lien PFC Bonds are redeemable by application of such Sinking Fund Installment plus unpaid interest accrued to the date of purchase, such purchases to be made by the Trustee as directed in writing by an Authorized Representative of the Authority; or

(2) to the redemption of such First Lien PFC Bonds pursuant to the redemption provisions of the PFC Trust Agreement, if then redeemable by their terms, at or below the Redemption Price referred to in clause (1) above;

provided, however, that the Trustee will not call for redemption or purchase any First Lien PFC Bonds as described in this paragraph (b) which have already been called for redemption pursuant to the redemption provisions of the PFC Trust Agreement.

(c) Upon the purchase or redemption of any First Lien PFC Bond as described in paragraph (b) above, an amount equal to the principal amount of the First Lien PFC Bond so purchased or redeemed will be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment will be credited against future Sinking Fund Installments in such order as is directed in writing by an Authorized Representative of the Authority to the Trustee.

(d) As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the Trustee will proceed to call for redemption, pursuant to the redemption provisions of the PFC Trust Agreement, on such due date First Lien PFC Bonds of the Series and maturity for which such Sinking Fund Installment was established in such amount as is necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the First Lien PFC Bonds of such Series and maturity. The Trustee will so call such First Lien PFC Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date. The Trustee will apply to the redemption of the First Lien PFC Bonds on each such redemption date, the amount required for the redemption of such First Lien PFC Bonds.

Priority of Funds in Event of Debt Service Fund Shortfall

If on any Payment Date with respect to a Series of First Lien PFC Bonds there are insufficient moneys available in the applicable Subaccounts within the applicable Account in the Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of First Lien PFC Bonds then due, after drawing any moneys available for such purpose from any applicable Credit Facility, the Authority or, as the case may be, the Trustee will withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account not yet committed to the redemption of First Lien PFC Bonds, (ii) the PFC Capital Fund, (iii) the Subordinated Debt Service Fund, (iv) the related Series Account in the Debt Service Reserve Fund and (v) the Project Fund.

Debt Service Reserve Fund

(a) In the event that a First Lien Series Reserve Requirement is imposed by any Supplemental Agreement with respect to a Series of First Lien PFC Bonds or with respect to two or more Series of First Lien PFC Bonds taken together, then there will be established within the Debt Service Reserve Fund a Series Account (which may contain a PFC-Funded Subaccount and a NonPFC-Funded Subaccount), in which will be maintained funds and investments securing such single or multiple Series of First Lien PFC Bonds. Amounts on deposit in each Series Account in the Debt Service Reserve Fund will be applied, to the extent other funds are not available therefor pursuant to the "Debt Service Fund" provision, solely to pay the Principal Installments of and interest on

the First Lien PFC Bonds of the Series to which such Series Account relates as and when specified in the applicable Supplemental Agreement. Amounts so applied will be derived, first, from cash or Investment Securities on deposit therein and, second, from draws or demands on Financial Guaranties held as a part thereof upon the terms and conditions set forth in any such Financial Guaranty or as set forth in the Supplemental Agreement authorizing use of such Financial Guaranty.

(b) If, as of June 30, or, if such day is not a Business Day, on the next preceding Business Day, the amount in the Series Account exceeds the related First Lien Series Reserve Requirement for the Fiscal Year then ending, after giving effect in the case of each such Account to any Financial Guaranty deposited in such Account, the Trustee will withdraw from such Account the amount of any excess therein as of the date of such withdrawal and deposit the moneys so withdrawn first into the Interest Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made pursuant to the PFC Trust Agreement and second to the Principal Account of the Debt Service Fund until the amount on deposit therein is equal to the next deposit required to be made therein pursuant to the PFC Trust Agreement. Any balance of such excess remaining will be applied as provided in the previous sentence with respect to deposits required pursuant to the PFC Trust Agreement for as many succeeding months as is necessary to fully apply such excess.

(c) Whenever the amount (exclusive of Financial Guaranties) in any Series Account in the Debt Service Reserve Fund, together with the amount in the Debt Service Fund provided for payment of the First Lien PFC Bonds of the Series secured by such Series Account, is sufficient to pay all Outstanding Series of First Lien PFC Bonds secured by such Series Account in accordance with their respective terms, the funds on deposit in the Debt Service Reserve Fund will be transferred to the Debt Service Fund and applied to the redemption or payment at maturity of all First Lien PFC Bonds of such Series which are then Outstanding.

(d) In lieu of the required deposits and transfers to any Series Account in the Debt Service Reserve Fund (excluding, however, any Series Account securing a Series of First Lien PFC Bonds for which the applicable Supplemental Agreement provided for a reduction in calculating Maximum Adjusted Annual Debt Service), the Authority may cause to be deposited in any such Account Financial Guaranties in an amount equal to the difference between the applicable First Lien Series Reserve Requirement and the sums, if any, then on deposit in such Account or being deposited in such Account concurrently with such Financial Guaranties. The Financial Guaranties will be payable (upon the giving of notice as required thereunder) on any date on which moneys will be required to be withdrawn from the applicable Account in the Debt Service Reserve Fund and applied to the payment of a Principal Installments of or interest on any First Lien PFC Bonds and such withdrawal cannot be met by moneys on deposit in the applicable Account. If a disbursement is made pursuant to Financial Guaranties, the Authority will be obligated either (i) to reinstate the maximum limits of such Financial Guaranties or (ii) to deposit into the applicable Account funds in the amount of the disbursement made under such Financial Guaranties, or a combination of such alternatives, as will provide that the amount in such Account equals the applicable Requirement.

(e) In the event of the refunding of any First Lien PFC Bonds, the Trustee will, upon the written direction of the Authority, withdraw from the Subaccounts and Accounts related to the First Lien PFC Bonds to be refunded all or any portion of the amounts accumulated therein with respect to the First Lien PFC Bonds to be refunded and deposit such amounts as provided in such written direction in terms consistent with any relevant provision of the Supplemental Agreement authorizing the issuance of such refunding First Lien PFC Bonds; provided that such withdrawal will not be made unless (i) immediately thereafter the First Lien PFC Bonds being refunded will be deemed to have been paid pursuant to the PFC Trust Agreement, and (ii), after giving effect to any amounts being simultaneously deposited therein, the amount remaining in each Account after such withdrawal will not be less than the applicable First Lien Series Requirement or, if applicable, any other amount specified in the Supplemental Agreement authorizing the issuance of the First Lien PFC Bonds being refunded.

In the event of an optional redemption in part or optional defeasance in part of the 1999 PFC Bonds or the 2007 PFC Bonds, the First Lien Series Reserve Requirement with respect thereto may be reduced at the option

of the Authority by an amount equal to any reduction effected by such redemption or defeasance in the installment of principal payable on the final maturity date of the 1999 PFC Bonds or the 2007 PFC Bonds, as applicable; provided, that such reduced First Lien Series Reserve Requirement shall not be less than the Maximum Series Annual Debt Service with respect to the 1999 PFC Bonds or the 2007 PFC Bonds, as applicable, remaining Outstanding.

Subordinated Debt Service Fund

(a) The Trustee will, for each Series of Subordinate Lien PFC Obligations Outstanding, make payments similar to those set forth with respect to the First Lien PFC Bonds under the heading "Debt Service Fund" above. Moneys in the Subordinated Debt Service Fund will also be transferred to the Note Payment Fund and applied to the payment of interest on notes issued pursuant to the terms described under the heading "Bond Anticipation Notes" to the extent provided in any Supplemental Agreement authorizing such notes.

(b) The amounts accumulated in the applicable Subaccounts within the Principal Account of the Subordinated Debt Service Fund for each Sinking Fund Installment may be applied (together with amounts in the applicable Subaccounts within the Interest Account of the Subordinated Debt Service Fund with respect to interest on the Subordinate Lien PFC Obligations for which such Sinking Fund Installment was established) by the Trustee to the purchase or redemption of Subordinate Lien PFC Obligations of the Series and maturity for which such Sinking Fund Installment was established in the same manner as moneys in the Debt Service Fund may be applied to Bonds as set forth in paragraph (b) under the heading "Debt Service Fund". Upon such purchase or redemption, an amount equal to the principal amount of the Subordinate Lien PFC Obligations so purchased or redeemed will be credited toward the next Sinking Fund Installment thereafter to become due and the amount of any excess of the amounts so credited over the amount of such Sinking Fund Installment will be credited against future Sinking Fund Installments in such order as is directed in writing by an Authorized Representative of the Authority to the Trustee.

(c) As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Installment, the Trustee will proceed to call for redemption on such due date Subordinate Lien PFC Obligations of the Series and maturity for which such Sinking Fund Installment was established in the amount of such Sinking Fund Installment. The Trustee will so call such Subordinate Lien PFC Obligations for redemption whether or not it then has moneys in the Subordinated Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the redemption date.

Priority of Funds in Event of Subordinated Debt Service Fund Shortfall

If on any Payment Date with respect to a Series of Subordinate Lien PFC Obligations there are insufficient moneys available in the applicable Subaccounts within the applicable Account in the Subordinated Debt Service Fund to provide for payment of the Principal Installments of or interest on any Series of Subordinate Lien PFC Obligations then due, after drawing any moneys available for such purpose from any applicable Credit Facility, subject to any transfers to be made on such date pursuant to the terms described under the heading "Priority of Funds in Event of Debt Service Fund Shortfall", the Authority or, as the case may be, the Trustee will withdraw and apply the necessary moneys to provide for such insufficiency from the following Funds and Accounts in the following order: (i) amounts in the Redemption Account of the Subordinated Debt Service Fund not yet committed to the redemption of Subordinate Lien PFC Obligations, (ii) the PFC Capital Fund, (iii) the Common Account or the related Series Account in the Subordinated Debt Service Reserve Fund and (iv) the Project Fund.

Subordinated Debt Service Reserve Fund

Moneys in the Subordinated Debt Service Reserve Fund will be applied to the payment of Subordinate Lien PFC Obligations in a manner determined in accordance with the applicable Supplemental Agreement.

Note Payment Fund

(a) The Authority will deposit into a separate account of the Note Payment Fund the proceeds of any PFC Bonds issued to provide for the payment of Bond Anticipation Notes of the Authority as directed by the Supplemental Agreement for such PFC Bonds and will deposit amounts transferred as described in paragraph (a) under the heading "Debt Service Fund", in paragraph (a) under the heading "Subordinated Debt Service Fund" and under the heading "PFC Capital Fund".

(b) Moneys on deposit in a Subaccount of the Note Payment Fund will be applied to the payment of the Bond Anticipation Notes with respect to which such Subaccount was established upon receipt by the Trustee of a certificate of the Authority as required by the PFC Trust Agreement. Any moneys remaining in a Subaccount of the Note Payment Fund after payment of the Bond Anticipation Notes with respect to which such account was established will be transferred to and deposited in a separate Subaccount established within the Project Fund.

PFC Capital Fund

On or prior to the date of issuance of the 1999 PFC Bonds, the Authority will transfer to the PFC Capital Fund all PFC Pledged Revenue and proceeds thereof then held by the Authority. Money in the PFC Capital Fund may be (i) used and disbursed to pay the Costs of Projects, (ii) transferred to the PFC Pledged Revenue Fund or the Note Payment Fund, (iii) used and disbursed to make necessary additions, betterments, improvements and repairs to or extension and replacements of the Projects if permitted by PFC Regulations, or to the extent permitted by PFC Regulations, for any other lawful purposes of the Authority, or (iv) used and disbursed to pay debt service on any other obligation incurred by the Authority to pay Costs of Projects and, until so applied, will be pledged to the payment of and subject to a lien and charge in favor of registered holders of the PFC Bonds.

Depositaries

All moneys or securities held by the Authority or the Trustee under the provisions of the PFC Trust Agreement will constitute trust funds. The Authority may and the Trustee may (and will, if directed in writing by an Authorized Representative of the Authority) deposit such moneys or securities with one or more Depositaries in trust for the Authority or the Trustee, as the case may be. All moneys or securities deposited under the provisions of the PFC Trust Agreement with the Trustee or any Depositary will be held in trust and applied only in accordance with the provisions of the PFC Trust Agreement, and each of such Funds established by the PFC Trust Agreement will be a trust fund for the purposes thereof. Each Depositary holding moneys or securities in trust for the Authority or the Trustee will be a bank or trust company organized under the laws of a state of the United States of America or a national banking association organized under the laws of the United States of America, having capital stock, surplus and undivided earnings aggregating at least $100,000,000 (or such greater amount as set forth in a Supplemental Agreement) and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the PFC Trust Agreement.

Investment of Certain Funds

(a) Moneys held in the Debt Service Fund, the Subordinated Debt Service Fund and the Note Payment Fund will be invested and reinvested by the Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (f), (h), (i), (j), (k), (l), (m) or (n) of the definition of Investment Securities in the PFC Trust Agreement, which mature not later than at such times as will be necessary to provide moneys when needed for payments to be made from such Funds. Subject to the "Debt Service Reserve Fund" and "Subordinated Debt Service Reserve Fund" provisions of the PFC Trust Agreement, moneys held in the Debt Service Reserve Fund and the Subordinated Debt Service Reserve Fund will be invested and reinvested by the

Trustee to the fullest extent practicable in Investment Securities of the type described in clause (a), (b), (c), (d), (i) (j), (k) (l), (m) or (n) of the definition of Investment Securities, which mature or otherwise terminate not later than at such times as will be necessary to provide moneys when needed for payment to be made from such Fund. Moneys held in the Project Fund, the PFC Pledged Revenue Fund, the Rebate Fund and the PFC Capital Fund will be invested and reinvested in Investment Securities which mature not later than such times as will be necessary to provide moneys when needed for payments to be made from such Funds. The Trustee will make all such investments of moneys held by it in accordance with specific written instructions from an Authorized Representative of the Authority, which may for this purpose include one or more investment advisors designated in writing by any Authorized Representative of the Authority from time to time. In making any investment in any Investment Securities with moneys in any Fund or Account established under the PFC Trust Agreement, the Authority may, and may instruct the Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

(b) Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the PFC Pledged Revenue Fund, the Debt Service Fund, the Subordinated Debt Service Fund, the Rebate Fund (except to such extent as may be otherwise provided in a Supplemental Agreement), the Note Payment Fund and the PFC Capital Fund will be retained in the Fund in which such earnings accrued; provided, however, that the Authority may from time to time direct that all or a portion of such earnings in the Note Payment Fund or the PFC Capital Fund may be transferred, as the Authority directs, to the PFC Pledged Revenue Fund or to the Debt Service Fund. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Project Fund will be paid, on the first Business Day following the last day of each month, to the related Interest Subaccounts or, if the Authority will so direct, the related Capitalized Interest Subaccounts of the Debt Service Fund (or the Subordinated Debt Service Fund if so specified in the applicable Supplemental Agreement); provided, however, that the Authority may from time to time direct that all or a portion of such earnings may be retained in the Project Fund for any period of time. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and other investment earnings on any moneys or investments in the Debt Service Reserve Fund will be paid, on the first Business Day following the last day of each month, on a pro rata basis based on the required deposits to each Series Subaccount therein pursuant to the PFC Trust Agreement, first to the Interest Account of the Debt Service Fund and second to the Principal Account of the Debt Service Fund; provided however, that the Authority may direct that investment earnings on any moneys or investments in the Debt Service Reserve Fund may be deposited for such period of time as the Authority may determine in the PFC Pledged Revenue Fund or the Project Fund if the Authority will obtain a Bond Counsel's Opinion to the effect that such application of earnings will not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes. Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) and any other investment earnings on the Subordinated Debt Service Reserve Fund will be paid on the first Business Day following the last day of each month, on a pro rata basis based on the required deposits to each Series Subaccount therein pursuant to the PFC Trust Agreement, first to the Interest Account of the Subordinated Debt Service Fund and second to the Principal Account of the Subordinated Debt Service Fund; provided, however, that the Authority may direct that investment earnings on any moneys or investments in the Subordinated Debt Service Fund may be deposited for such period of time as the Authority may determine in the PFC Pledged Revenue Fund or the Project Fund if the Authority will obtain a Bond Counsel's Opinion to the effect that such application of earnings will not adversely affect the exclusion of interest on any Tax Exempt Indebtedness from gross income of the holder for federal income tax purposes.

(c) Notwithstanding the foregoing, the Authority may direct that investment earnings reasonably expected to be subject to the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto may be deposited directly to the Rebate Fund to the extent desirable to comply with the requirements of section 148(f) of the Code or the Treasury Regulations applicable thereto.

Valuation and Sale of Investments

Obligations purchased as an investment of moneys in any Fund created under the provisions of the PFC Trust Agreement will be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment will be credited to such Fund and any loss resulting from the liquidation of such investment will be charged to such Fund.

In computing the amount in any Fund created under the provisions of the PFC Trust Agreement for any purpose provided in the PFC Trust Agreement, obligations purchased as an investment of moneys therein will be valued at the amortized cost of such obligations. Any deficiency resulting from a decrease in the valuation of investments held in the Debt Service Reserve Fund may be disregarded for purposes of calculating deposits required from the PFC Pledged Revenue Fund (but not for purposes of deposits required to make the amount on deposit in the Common Account upon each sale of Bonds equal to the First Lien Series Reserve Requirement) provided that the amount on deposit in each Series Account in the Debt Service Reserve Fund is at least 95% of the related First Lien Series Reserve Requirement. The accrued interest paid in connection with the purchase of any obligation will be included in the value thereof until interest on such obligation is paid. Such computation will be made annually on June 30 for all Funds and at such other times as the Authority will determine or as may be required by the PFC Trust Agreement.

Rebate Fund

Upon the issuance, sale and delivery of any Series of Tax Exempt Indebtedness subject to the Rebate Fund Requirement, the Trustee will establish a separate account within the Rebate Fund for such Series. Funds on deposit in the Rebate Fund will be applied as set forth in the applicable Supplemental Agreement. Unless otherwise specified in the applicable Supplemental Agreement, interest or other income derived from the investment or deposit of moneys in the Rebate Fund will be transferred to the PFC Pledged Revenue Fund.

Certain Authority Covenants

Maintenance of the Airport. The Authority will at all times keep and maintain or cause to be maintained the Airport in good repair, working order and condition, and will at all times operate the same and the business or businesses in connection therewith in an efficient manner and at a reasonable cost.

Property and Liability Insurance. The Authority will keep all Airport operating facilities insured, if such insurance is obtainable at reasonable rates and upon reasonable conditions, against such risks, in such amounts, and with such deductibles and including such amounts of self-insurance as the Authority deems necessary for the protection of the Authority and of the owners of PFC Bonds then Outstanding.

Books and Records. The Authority will keep and maintain proper books of account and accurate records of all of its revenue, including PFC receipts, received from any source whatsoever, and of all costs of administration and maintenance and operation of all of its business that are in accordance with generally accepted accounting principles as in effect from time to time. On or before 120 days after each Fiscal Year, the Authority will prepare or cause to be prepared a financial statement of the Authority for such preceding Fiscal Year. Each such annual financial statement will contain a statement of the PFC Pledged Revenue for such Fiscal Year and shall contain a statement as of the end of such year showing the status of all funds of the Authority pertaining to the operation of its business and the status of all of the funds created by various resolutions of the Authority authorizing the issuance of outstanding bonds and other obligations payable from the PFC Pledged Revenue. Copies of such financial statements will be placed on file in the main office of the Authority, and will be open to inspection at any reasonable time by the owners of the PFC Bonds.

Compliance with Law. The Authority will comply with all provisions of the PFC Act, the Noise Act, the PFC Authority and the PFC Regulations applicable to the Authority and will not take any action or omit to

take any action with respect to PFC Pledged Revenue, the Projects, the Airport or otherwise if such action or omission would, pursuant to the PFC Regulations, cause the termination or reduction of the Authority's authority to impose PFCs included in the PFC Pledged Revenue or prevent the collection and use of the PFC Pledged Revenue as contemplated by the PFC Trust Agreement. The Authority covenants that all money in the PFC Pledged Revenue Fund and the PFC Capital Fund will be used in compliance with all provisions of the PFC Act and the PFC Regulations applicable to the Authority and all provisions of the PFC Authority. Without limiting the generality of the foregoing, the Authority covenants that, to the extent necessary to comply with the foregoing covenant:

(i) the Authority will diligently seek approval to use the PFC Pledged Revenue for the Projects within the time periods set forth in the PFC Regulations and will begin implementation of the Projects within the time periods set forth in the PFC Regulations;

(ii) the Authority (A) will impose PFCs to the full extent such imposition has been authorized and approved by the FAA in the PFC Authority, and (B) except as may be required by the FAA, will not unilaterally decrease the level of the PFC to be collected from any passenger; provided, however, that such covenant shall not extend to any PFC that is not included in the Pledged Portion;

(iii) the Authority will not impose any noise or access restriction at the Airport not in compliance with the Noise Act;

(iv) the Authority will take all action reasonably necessary to cause all Collecting Carriers to collect and remit to the Authority all PFCs at the Airport required by the PFC Regulations to be so collected and remitted;

(v) the Authority will contest any attempt by the FAA to terminate, reduce or suspend the Authority's authority to impose, receive or use PFCs at the Airport prior to the charge expiration date or the date on which the Pledged Portion of the total approved PFCs has been collected; and

(vi) in the event of receipt of an FAA Notice, the Authority will immediately notify the Trustee and the Rating Agencies of such event, will transfer the PFC Pledged Revenue Fund and the PFC Capital Fund to the Trustee as required by the PFC Trust Agreement and will respond to the FAA in a timely manner utilizing the resolution procedures provided by the PFC Regulations and the applicable PFC Authority.

Operation and Maintenance. The Authority covenants that it will not take any action or omit to take any action that would cause the FAA, the United States Department of Transportation or any other state or federal agency to suspend or to revoke the Authority's operating certificates for the Airport, that it will at all times use reasonable efforts to keep the Airport open for take-offs and landings and that it will use reasonable efforts to obtain in a timely manner all permits and approvals required to construct and operate the Projects.

Tax Covenants

The Authority will take or require to be taken such action as may from time to time be required to assure the continued exclusion from the federal gross income of holders of the interest on any Series of Tax Exempt Indebtedness, including, without limitation, the preparation and filing of any statements required to be filed by the Authority in order to establish and maintain such exclusion. In addition, the Authority will not take, or permit to be taken on its behalf, any action which would adversely affect the exclusion from federal gross income of the interest on any Series of Tax Exempt Indebtedness or any action which would cause any Series of Tax Exempt Indebtedness that is not included in the calculation of the federal alternative minimum tax on individuals to become included in such calculation.

Obligations Under Qualified Swap; Nonqualified Swap

(a) The obligation of the Authority to make Regularly Scheduled Qualified Swap Payments may be on a parity with the obligation of the Authority to make payments with respect to the Designated Debt relating to such Qualified Swap. The Authority may provide in any Supplemental Agreement that Regularly Scheduled Qualified Swap Payments will be secured by a pledge of or lien on the Pledged Revenue on a parity with the Designated Debt and all other PFC Bonds on a parity therewith regardless of the principal amount, if any, of such parity PFC Bonds remaining Outstanding. The Trustee will take all action consistent with the provisions of the PFC Trust Agreement as are necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Authority with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Trustee either to exercise the remedies granted in the PFC Trust Agreement or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider will provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Authority under a Qualified Swap, such Swap Termination Payment and any such other amounts will be expressly subordinate to the payment of the PFC Bonds. In addition, if the Authority elects in any instance not to place Regularly Scheduled Qualified Swap Payments on a particular Qualified Swap on a parity with the related Designated Debt, then such Regularly Scheduled Qualified Swap Payments also will be expressly subordinate to the payment of the First Lien PFC Bonds and, if the Authority so elects, to the payment of the Subordinate Lien PFC Obligations as well.

(c) Obligations of the Authority to make payments, including Swap Termination Payments, under any interest rate exchange, cap or other hedge agreement other than a Qualified Swap will be expressly subordinate to the payment of the PFC Bonds.

Supplemental Agreements

Supplemental Agreements Not Requiring Consent of Holders

The parties to the PFC Trust Agreement may without the consent of, or notice to, any of the holders of the PFC Bonds enter into agreements supplemental to the PFC Trust Agreement as will not, in their opinion, be inconsistent with the terms and provisions of the PFC Trust Agreement for any one or more of the following purposes and at any time or from time to time:

(a) to close the PFC Trust Agreement against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the PFC Trust Agreement on, the authentication and delivery of PFC Bonds or the issuance of other Secured Indebtedness;

(b) to add to the covenants and agreements of the Authority in the PFC Trust Agreement other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the PFC Trust Agreement as theretofore in effect including any covenants necessary for compliance with the Code, including without limitation section 148(f) thereof or regulations promulgated thereunder;

(c) to add to the limitations and restrictions in the PFC Trust Agreement other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the PFC Trust Agreement as theretofore in effect;

(d) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the PFC Trust Agreement, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the PFC Trust Agreement;

(e) to authorize PFC Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in the PFC Trust Agreement with respect to conditions precedent to the delivery of a Series of PFC Bonds, and also any other matters and things relative to such PFC Bonds which are not contrary to or inconsistent with the PFC Trust Agreement as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such PFC Bonds including, without limiting the generality of the foregoing, provisions amending or modifying the PFC Trust Agreement to provide for the issuance of PFC Bonds in book-entry form or in coupon form payable to bearer;

(f) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the PFC Trust Agreement, of the Pledged Revenue or of any other moneys, securities or funds;

(g) to modify any of the provisions of the PFC Trust Agreement in any respect whatsoever, provided that (i) such modification will be, and be expressed to be, effective only after all First Lien PFC Bonds or Subordinate Lien PFC Obligations of any Series affected by the amendment Outstanding at the date of the execution and delivery of such Supplemental Agreement ceases to be Outstanding, and (ii) such Supplemental Agreement will be specifically referred to in the text of all First Lien PFC Bonds or Subordinate Lien PFC Obligations of any Series authenticated and delivered after the date of the execution and delivery of such Supplemental Agreement and of First Lien PFC Bonds or Subordinate Lien PFC Obligations issued in exchange therefor or in place thereof;

(h) to modify the definition of Investment Securities as directed by the Authority, provided that the Authority will have provided evidence to the Trustee that the details of such modification have been provided in writing to each Rating Agency then assigning a rating on Outstanding PFC Bonds and that each such Rating Agency has either (i) confirmed in writing that such modification will not adversely affect such ratings or (ii) issued a rating on a Series of PFC Bonds to be issued which is not lower than the rating assigned by such Rating Agency to Outstanding PFC Bonds prior to such modification, or any other evidence satisfactory to the Authority that modification will not adversely affect the then current ratings, if any, assigned to the PFC Bonds by any Rating Agency;

(i) to subject to the lien of the PFC Trust Agreement additional revenues, security or collateral;

(j) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the PFC Trust Agreement;

(k) to insert such provisions clarifying matters or questions arising under the PFC Trust Agreement as are necessary or desirable and are not contrary to or inconsistent with the PFC Trust Agreement as theretofore in effect; or

(l) to provide for additional duties of the Trustee.

Supplemental Agreements Effective with Consent of Holders

At any time or from time to time, the parties to the PFC Trust Agreement may enter into a Supplemental Agreement subject to consent by holders of any PFC Bonds in accordance with and subject to the provisions of the PFC Trust Agreement relating to amendments, which Supplemental Agreement, upon the filing with the Trustee of a copy thereof certified by an Authorized Representative and upon compliance with the provisions of the PFC Trust Agreement, will become fully effective in accordance with its terms as provided in the provisions of the PFC Trust Agreement relating to amendments.

Amendments

Mailing of Notice of Amendment

Any provision in the PFC Trust Agreement for the mailing of a notice or other paper to any holder of the PFC Bonds will be fully complied with if it is mailed, by first-class mail, postage prepaid (i) to each owner of First PFC Lien Bonds or Subordinate Lien PFC Obligations, respectively, then Outstanding at his address appearing upon the registry books, and (ii) to the Trustee.

Powers of Amendment

Any modification or amendment of the PFC Trust Agreement or of the rights and obligations of the Authority and of the holders of the PFC Bonds under the PFC Trust Agreement, in any particular, may be made by a Supplemental Agreement, with the written consent given as provided in the PFC Trust Agreement, (i) of the holders of at least a majority in aggregate principal amount of the First Lien PFC Bonds Outstanding at the time such consent is given and at least a majority in aggregate principal amount of the Subordinate Lien PFC Obligations Outstanding at the time such consent is given and (ii) in case less than all of the several Series of PFC Bonds then Outstanding are affected by the modification or amendment, of the holders of at least a majority in aggregate principal amount of the PFC Bonds of the several Series so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any PFC Bonds of any specified like Series and maturity remain Outstanding, the consent of the holders of such PFC Bonds will not be required and such PFC Bonds will not be deemed to be Outstanding for the purpose of any calculation of Outstanding PFC Bonds as described in this paragraph. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding First Lien PFC Bond or Subordinate Lien PFC Obligation or of any installment of interest thereon or a reduction in the principal amount, Accreted Value or the Redemption Price thereof or in the rate of interest thereon without the consent of the holder of such First Lien PFC Bond or Subordinate Lien PFC Obligation, or will reduce the percentages or otherwise affect the classes of PFC Bonds the consent of the holders of which is required to effect any such modification or amendment, or will change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this paragraph, a Series will be deemed to be affected by a modification or amendment of the PFC Trust Agreement if the same adversely affects or diminishes the rights of the holders of PFC Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment PFC Bonds of any particular Series or maturity would be affected by any modification or amendment of the PFC Trust Agreement. Such determination may be based upon the written advice of Bond Counsel, if so requested by the Trustee, and will be binding and conclusive on the Authority and all holders of PFC Bonds. For the purposes of this paragraph, the holders of the PFC Bonds may include the initial holders thereof, regardless of whether such PFC Bonds are being held for immediate resale.

Modifications by Unanimous Consent

Notwithstanding anything contained in the PFC Trust Agreement with respect to Supplemental Agreements and amendments, the terms and provisions of the PFC Trust Agreement and the rights and obligations of the Authority and of the holders of PFC Bonds may be modified or amended in any respect upon

the adopting and filing of a Supplemental Agreement and the consent of the holders of all PFC Bonds then Outstanding, such consent to be given as provided in the PFC Trust Agreement except that no notice to the holders of PFC Bonds either by mailing or publication will be required; but no such modification or amendment will change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the holders of PFC Bonds.

Events of Default

Events of Default

The occurrence of any one or more of the following events will constitute an "Event of Default" under the PFC Trust Agreement:

(a) The Authority fails to make payment of the principal of any First Lien PFC Bonds when the same becomes due and payable whether by maturity or scheduled redemption prior to maturity;

(b) The Authority fails to make payments of any installment of interest on any First Lien PFC Bonds when the same become due and payable;

(c) The Authority defaults in the observance or performance of any other covenants, conditions or agreements on the part of the Authority contained in the PFC Trust Agreement, and such default continues for a period of 90 days; *provided, however,* that a breach of a covenant that results in a violation of the PFC Act, the Noise Act, the PFC Authority or the PFC Regulations will not be an Event of Default unless and until such violation results in a termination or reduction in the Authority's authority to impose or to impose and use PFCs included in the PFC Pledged Revenue.

A future Supplemental Agreement authorizing Subordinate Lien PFC Obligations may provide for additional events constituting defaults with respect thereto; provided that such defaults thereunder will not result in an Event of Default under the PFC Trust Agreement.

Upon the happening and continuance of any Event of Default, neither the Trustee nor the holders of the First Lien PFC Bonds or Subordinate Lien PFC Obligations will have the right to declare the principal of any PFC Bonds then Outstanding, or the interest accrued thereon, to be due and payable prior to its stated maturity.

Following the occurrence and during the continuation of an Event of Default, the Trustee in its own name and as the trustee of an express trust, may take any or all of the following actions:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the registered holders and require the Authority to carry out any agreements with or for the benefit of the registered holders of PFC Bonds and to perform its or their duties under the PFC Trust Agreement and any Supplemental Agreement;

(ii) bring suit upon the PFC Bonds;

(iii) by action or suit in equity require the Authority to account as if it were the trustee of an express trust for the registered holders of the PFC Bonds; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the registered holders of the PFC Bonds.

The Trustee must give notice of all Events of Default known to the Trustee, to the registered holders within 90 days after acquiring actual knowledge thereof. The Trustee will be protected in withholding such notice

if and so long as the board of directors, the executive committee or a trust committee of directors and/or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the registered holders.

Accounting and Examination of Records After Event of Default

(a) The Authority covenants that if an Event of Default happens and is not remedied, the books of record and account of the Authority will at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

(b) The Authority covenants that if an Event of Default happens and is not remedied, the Authority, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Pledged Revenue and other moneys, securities and funds pledged or held under the PFC Trust Agreement for such period as will be stated in such demand.

Application of Pledged Revenue and Other Moneys After Event of Default

(a) The Authority covenants that if an Event of Default happens and is not remedied, the Authority, upon demand of the Trustee, will pay over or cause to be paid over to the Trustee (i) forthwith, any moneys, securities and funds then held by the Authority or a Depositary in any Fund, Account or Subaccount under the PFC Trust Agreement (excluding the Rebate Fund) and (ii) as promptly as practicable after receipt thereof, the Pledged Revenue. To the extent that the allocation of such moneys, securities, funds and Pledged Revenue is not otherwise provided for in the PFC Trust Agreement, the Trustee will establish and deposit the same into a separate Account in the Debt Service Fund.

(b) During the continuation of an Event of Default, all Pledged Revenue and any other funds then held or thereafter received by the Trustee under any of the provisions of the PFC Trust Agreement will be applied by the Trustee as follows and in the following order:

(i) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the registered holders of the PFC Bonds (including without limitation deposits to the Rebate Fund sufficient to fund any unfunded anticipated liability of the Authority under section 148 of the Code relating to the PFC Bonds) and payment of reasonable fees and charges and expenses of the Trustee (including without limitation reasonable fees and disbursements of its counsel) incurred in and in connection with the performance of its powers and duties under the PFC Trust Agreement;

(ii) To the payment of the principal of and interest then due on the PFC Bonds upon presentation of the PFC Bonds to be paid (and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the PFC Trust Agreement, as follows:

(1) Unless the principal of all of the PFC Bonds has become due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within such liens, ratably, according to the amounts of interest due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any PFC Bonds which have become due, whether at maturity or by call for redemption, with interest on the overdue principal at the rate borne by the respective PFC Bonds, and, if the amount

available is not sufficient to pay in full all the PFC Bonds, together with such interest, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within such liens, ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference;

(2) If the principal of all of the PFC Bonds has become due and payable (but without implying any right to accelerate the payment of such principal as a remedy upon the occurrence of an Event of Default), to the payment of the principal and interest then due and unpaid upon the PFC Bonds, with interest on the overdue principal at the rate borne by the PFC Bonds, and, if the amount available is not sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof first to First Lien PFC Bonds and then to Subordinate Lien PFC Obligations and within each such lien, ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any First Lien PFC Bond over any other First Lien PFC Bond or of any Subordinate Lien PFC Obligation over any other Subordinate Lien PFC Obligation, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

(iii) Subject to any contrary direction of the FAA if an Event of Default under paragraph (c) of the above description of "Events of Default" occurs and is continuing, to the Authority.

(c) Notwithstanding the provisions of paragraph (b) above, in the event that there occurs an Event of Default set forth in paragraph (c) of the above description of "Events of Default", and under the PFC Authority the FAA permits the continued imposition and use of PFCs for the purpose of paying debt service on any Series of PFC Bonds as to which certificates of completion have been rendered with respect to the Series Project or Projects for which such Series of PFC Bonds was issued, then the proceeds of such continued collection relating to such Series of PFC Bonds will be allocated first to such Series of First Lien PFC Bonds or Subordinate Lien PFC Obligations and, when the First Lien PFC Bonds or Subordinate Lien PFC Obligations of such Series have been paid in full, will then be allocated among the remaining PFC Bonds of other Series as provided in paragraph (b) above.

Proceedings Brought by Trustee

(a) If an Event of Default happens and is not remedied, then and in every such case, the Trustee, by its agents and attorneys, if the Trustee deems it advisable, may proceed to protect and enforce its rights and the rights of the holders of the PFC Bonds under the PFC Trust Agreement forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant contained in the PFC Trust Agreement, or in aid of the execution of any power granted in the PFC Trust Agreement, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, deems most effectual to enforce any of its rights or to perform any of its duties under the PFC Trust Agreement.

(b) The holders of a majority in principal amount of the First Lien PFC Bonds at the time Outstanding or, if no First Lien PFC Bonds are Outstanding, of Subordinate Lien PFC Obligations Outstanding, may direct by instrument in writing the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee will have the right to decline to follow any such direction if the Trustee is advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith determines that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the holders of PFC Bonds not parties to such direction.

(c) Upon commencing a suit in equity or upon the commencement of judicial proceedings by the Trustee to enforce any right under the PFC Trust Agreement, the Trustee will be entitled to exercise any and all rights and powers conferred in the PFC Trust Agreement and provided to be exercised by the Trustee upon the occurrence of an Event of Default; and, as a matter of right against the Authority, without notice or demand and without regard to the adequacy of the security for the PFC Bonds, the Trustee will, to the extent permitted by law, be entitled to the appointment of a receiver of the moneys, securities and funds then held by the Authority in any Fund, Account or Subaccount under the PFC Trust Agreement and, subject to application of the Pledged Revenue, with all such powers as the court or courts making such appointment will confer; but notwithstanding the appointment of any receiver, the Trustee will be entitled to retain possession and control of and to collect and receive income from, any moneys, securities and funds deposited or pledged with it under the PFC Trust Agreement or agreed to provide to be delivered or pledged with it under the PFC Trust Agreement.

(d) Regardless of the happening of an Event of Default, the Trustee will have the power to, but (unless requested in writing by the holders of a majority in principal amount of the PFC Bonds then Outstanding, and furnished with security and indemnity satisfactory to it will be under no obligation to, institute and maintain such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as it may determine will be necessary or expedient to prevent any impairment of the security under the PFC Trust Agreement, any impairment of the ability of the Authority or the Trustee to satisfy any of its agreements or obligations under the PFC Trust Agreement, or the impairment of any protection provided by the PFC Trust Agreement of the interests of the holders of PFC Bonds by any acts which may be unlawful or in violation of the PFC Trust Agreement, and such suits and proceedings, including, without limitation, proceedings for declaratory judgment or injunctive or other equitable relief, as the Trustee may determine will be necessary or expedient to preserve or protect its interest and the interests of the holders of any PFC Bonds.

Restrictions on Action by Holders of PFC Bonds

No holder of any PFC Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the PFC Trust Agreement or the execution of any trust under the PFC Trust Agreement or for any remedy under the PFC Trust Agreement, unless such holder will have previously given to the Trustee written notice of the happening of an Event of Default, as provided in the PFC Trust Agreement, and the holders of at least a majority in principal amount of the First Lien PFC Bonds then Outstanding, or if no First Lien PFC Bonds are Outstanding of Subordinate Lien PFC Obligations Outstanding, will have filed a written request with the Trustee, and will have offered it reasonable opportunity, either to exercise the powers granted as provided under this heading or to institute such action, suit or proceeding in its own name, and unless such holders will have offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will have refused to comply with such request within a reasonable time; it being understood and intended that no one or more holders of PFC Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the pledge created by the PFC Trust Agreement, or to enforce any right under the PFC Trust Agreement, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the PFC Trust Agreement will be instituted, had and maintained in the manner provided in the PFC Trust Agreement and for the equal benefit of all holders of the Outstanding First Lien PFC Bonds, in accordance with their rights and interests under the PFC Trust Agreement and all holders of Outstanding Subordinate Lien PFC Obligations, in accordance with their rights and interests under the PFC Trust Agreement.

The Trustee

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the PFC Trust Agreement by giving not less than 60 days' written notice to the Authority, the FAA and the registered owners of the PFC Bonds; provided, that if at the time any of the PFC Bonds shall be in unregistered form, then there shall be published, at the Trustee's expense, a notice of such resignation, specifying the date when such resignation will take effect, which shall be published once in each week for two successive calendar weeks in an Authorized Newspaper. Such resignation will take effect upon the day specified in such notice, provided a successor shall have been appointed and shall have accepted its duties as successor Trustee, unless previously a successor shall have been appointed by the Authority or the holders of any PFC Bonds as provided in the PFC Trust Agreement, in which event such resignation will take effect immediately on the appointment of such successor and its acceptance of its duties as successor Trustee.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the holders of a majority in principal amount of the First Lien PFC Bonds then Outstanding, or if no First Lien PFC Bonds are Outstanding, of the Subordinate Lien PFC Obligations then Outstanding, or their attorneys-in-fact duly authorized, excluding any PFC Bonds held by or for the account of the Authority. The Trustee may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the PFC Trust Agreement with respect to the duties and obligations of the Trustee, by any court of competent jurisdiction upon the application of the Authority or the holders of not less than 25% in aggregate principal amount of First Lien PFC Bonds Outstanding, or if no First Lien PFC Bonds are Outstanding, Subordinate Lien PFC Obligations Outstanding, excluding any PFC Bonds held by or for the account of the Authority. Notwithstanding the foregoing provisions, at the end of the fifth Fiscal Year following the Fiscal Year in which the first series of PFC Bonds is issued under the PFC Trust Agreement, and at the end of every fifth Fiscal Year thereafter, the Authority may remove the Trustee, except during the existence of an Event of Default, upon 120 days written notice to the Trustee by filing with the Trustee an instrument signed by an Authorized Representative of the Authority.

Appointment of Successor Trustee

(a) In case at any time the Trustee resigns or is removed or becomes incapable of acting, or is adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or its property, is appointed, or if any public officer takes charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the holders of a majority in aggregate principal amount of the First Lien PFC Bonds then Outstanding, or if no First Lien PFC Bonds are Outstanding of the Subordinate Lien PFC Obligations then Outstanding, excluding any PFC Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such holders of any PFC Bonds or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority, the FAA and the predecessor Trustee; but (unless a successor Trustee has been appointed by the holders of the PFC Bonds as aforesaid) the Authority by a duly executed written instrument signed by an Authorized Representative will forthwith appoint a Trustee to fill such vacancy until a successor Trustee is appointed by the holders of the PFC Bonds as authorized in the PFC Trust Agreement. The Authority will publish notice of any such appointment made by it once in each week for two consecutive calendar weeks, in an Authorized Newspaper, the first publication to be made within 20 days after such appointment. Any successor Trustee appointed by the Authority will, immediately and without further act, be superseded by a Trustee appointed by the holders of the PFC Bonds as authorized in the PFC Trust Agreement.

(b) If in a proper case no appointment of a successor Trustee is made pursuant to the foregoing provisions within 45 days after the Trustee has given to the Authority written notice as provided in the PFC Trust Agreement or after a vacancy in the office of the Trustee has occurred by reason of its removal or inability to act, the Trustee or the holder of any PFC Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

(c) Any Trustee appointed under the provisions of the PFC Trust Agreement in succession to the Trustee will be a bank or trust company organized under the laws of any state or a national banking association, and having a capital and surplus aggregating at least $100,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the PFC Trust Agreement.

FAA Directions

In the event that the Trustee receives an FAA Notice, and so long as the alleged violation(s) of the PFC Act, the Noise Act, the PFC Regulations, PFC Authority or other applicable law which are the subject of such FAA Notice will remain unresolved, the Trustee, to the extent permitted by law, will act upon the written direction of the FAA issued pursuant to the applicable PFC Authority as then in effect with respect to the disposition of the Pledged Revenue after the PFC Bonds have been paid. Notwithstanding anything in the PFC Trust Agreement to the contrary, the FAA will have only those rights or remedies set forth in the then currently effective PFC Authority.

Defeasance

(a) If the Authority pays or causes to be paid to the holders of all PFC Bonds then Outstanding, the Principal Installments and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the PFC Trust Agreement, then, at the option of the Authority, expressed in an instrument in writing signed by an Authorized Representative and delivered to the Trustee, the covenants, agreements and other obligations of the Authority to the holders of such PFC Bonds will be discharged and satisfied. In such event, the Trustee will, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries will pay over or deliver to the Authority all moneys, securities and funds held by them pursuant to the PFC Trust Agreement which are not required for the payment or redemption of PFC Bonds not theretofore surrendered for such payment or redemption.

(b) PFC Bonds for the payment or redemption of which moneys have been set aside and are held in trust by the Trustee (through deposit by the Authority of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof will be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above. Subject to the provisions described in paragraph (c) below, any Outstanding PFC Bonds will prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (a) above if (i) in case any of said PFC Bonds are to be redeemed on any date prior to their maturity, the Authority has given to the Trustee irrevocable instructions accepted in writing by the Trustee to give notice of redemption of such PFC Bonds (other than the PFC Bonds which have been purchased by the Trustee at the direction of the Authority as provided in the PFC Trust Agreement prior to the giving of such notice of redemption) on said date, (ii) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Defeasance Obligations the principal installments of and/or the interest on which when due, without reinvestment, will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, will be sufficient, to pay when due the Principal Installments or Redemption Price, if applicable, and interest due and to become due on said PFC Bonds on or prior to the redemption date or maturity date thereof, as the case may be (and, in any case in which future investment earnings on Defeasance Obligations shall be required for such sufficiency, then such sufficiency shall be evidenced by a Certificate of an

Accountant), and (iii) in the event said PFC Bonds are not to be redeemed within the next succeeding 60 days, the Authority will have given the Trustee in form satisfactory to it irrevocable instructions to publish, as soon as practicable, at least twice, at an interval of not less than seven days between publications, in the Authorized Newspapers a notice to the holders of such PFC Bonds that the deposit required by (i) above has been made with the Trustee and that said PFC Bonds are deemed to have been paid as provided under this heading and stating such maturity or redemption date upon which moneys are to be available for the payment of the Principal Installments or Redemption Price, if applicable, on said PFC Bonds (other than PFC Bonds which have been purchased by the Trustee at the direction of the Authority as provided in the PFC Trust Agreement prior to the publication of the notice of redemption referred to in clause (i)); provided, however, that in connection with the provision for payment of any PFC Bonds which are then in non-certificated form or are immobilized subject to the book-entry registration system of The Depository Trust Company or other securities depository, the requirements of clause (iii) above will be deemed satisfied upon mailing of the notice required by said clause (iii) by registered mail to the securities depository which is the registered owner, or whose nominee is the registered owner, of such PFC Bonds. The Trustee will, as and to the extent necessary, apply moneys held by it as provided under this heading to the retirement of said PFC Bonds in amounts equal to the unsatisfied balances of any Sinking Fund Installments with respect to such PFC Bonds, all in the manner provided in the PFC Trust Agreement.

The Trustee will, if so directed by the Authority (x) prior to the maturity date of PFC Bonds deemed to have been paid which are not to be redeemed prior to their maturity date or (y) prior to the giving of the notice of redemption referred to in clause (i) above with respect to any PFC Bonds deemed to have been paid as provided under this heading which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such PFC Bonds and redeem or sell Defeasance Obligations so deposited with the Trustee and apply the proceeds thereof to the purchase of such PFC Bonds and the Trustee will immediately thereafter cancel all such PFC Bonds so purchased; provided, however, that the Trustee will receive a Certificate of an Accountant showing that the moneys and Defeasance Obligations remaining on deposit with the Trustee after the purchase and cancellation of such PFC Bonds will be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all PFC Bonds, in respect of which such moneys and Defeasance Obligations are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be and a Bond Counsel's Opinion to the effect that such redemption or sale of such Defeasance Obligations will not adversely affect the exclusion of the interest on such PFC Bonds from gross income of the holders thereof for federal income tax purposes and that such redemption or sale otherwise complies with the provisions of the PFC Trust Agreement. Except as otherwise provided in paragraphs (b) and (c) under this heading, neither Defeasance Obligations nor moneys deposited with the Trustee as described under this heading nor principal or interest payments on any such Defeasance Obligations will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said PFC Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee (A) to the extent such cash will not be required at any time for such purpose, will be paid over to the Authority as received by the Trustee, free and clear of any trust, lien or pledge securing said PFC Bonds or otherwise existing under the PFC Trust Agreement, and (B) to the extent such cash will be required for such purpose at a later date, will, to the extent practicable, be reinvested at the specific written direction of an Authorized Representative of the Authority in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said PFC Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestment, will be paid over to the Authority, as received by the Trustee, free and clear of any lien or pledge securing said PFC Bonds or otherwise existing under the PFC Trust Agreement.

(c) For purposes of determining whether Variable Rate Indebtedness will be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, in accordance with the second sentence of paragraph (b) under this heading, the interest to come due on such Variable Rate Indebtedness on or prior to the maturity date or redemption date thereof, as the case may be, will be calculated at the maximum rate permitted by the terms thereof; provided,

however, that if on any date, as a result of such Variable Rate Indebtedness having borne interest at less than such maximum rate for any period, the total amount of moneys and Investment securities on deposit with the Trustee for the payment of interest on such Variable Rate Indebtedness is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Indebtedness in order to satisfy the second sentence of paragraph (b) under this heading, the Trustee will, if requested, by the Authority, pay the amount of such excess to the Authority free and clear of any lien or pledge securing the PFC Bonds or otherwise existing under the PFC Trust Agreement.

(d) Option Bonds will be deemed to have been paid in accordance with the second sentence of paragraph (b) under this heading only if, in addition to satisfying the requirements of clauses (i) and (iii) of such sentence, there will have been deposited with the Trustee moneys in an amount which will be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Option Bonds which could become payable to the holders of such Option Bonds upon the exercise of any options provided to the holders of such Option Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions described in paragraph (b) under this heading, the options originally exercisable by the holder of an Option Bond are no longer exercisable, such Option Bond will not be considered an Option Bond for purposes of this paragraph (d). If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee will, if requested in writing by the Authority, pay the amount of such excess to the Authority free and clear of any trust, lien or pledge securing said Option Bonds or otherwise existing under the PFC Trust Agreement.

(e) Anything in the PFC Trust Agreement to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the PFC Bonds which remain unclaimed for two years after the date when such PFC Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such PFC Bonds become due and payable, will, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary will thereupon be released and discharged with respect thereto and the holders of any PFC Bonds will look only to the Authority for the payment of such PFC Bonds; provided, however, that before being required to make any such payment to the Authority, the Fiduciary may, at the expense of the Authority, cause to be published at least twice, at an interval of not less than seven days between publications, in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date will be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

Preservation and Inspection of Documents

All documents received by any Fiduciary under the provisions of the PFC Trust Agreement will be retained in its possession and will be subject at all reasonable times to the inspection of the Authority, the FAA any other Fiduciary, and any holder of any PFC Bonds, and any person that the Trustee can reasonably determine is a beneficial owner of any PFC Bonds held by or on behalf of a securities depository, and their agents and their representatives, any of whom may make copies thereof. Upon the receipt of a written request by any such beneficial owner or any holder of any PFC Bonds, or their agents or their representatives, the Trustee will provide copies of any reports or certificates delivered to the Trustee pursuant to any provision of the PFC Trust Agreement. At the direction of the Authority, (i) the Trustee will require the party requesting such reports or certificates to pay or reimburse the Trustee for the direct costs of reproducing and mailing such reports or certificates or (ii) the Authority shall pay or reimburse the Trustee for such direct costs.

No Recourse on the PFC Bonds

No recourse will be had for the payment of the principal of or interest on the PFC Bonds or for any claim based thereon or on the PFC Trust Agreement against any present or future member, director, officer,

employee or agent of the Authority or any person executing the PFC Bonds, each in his or her individual capacity; and no such person (including any such person executing PFC Bonds) will be liable personally on any PFC Bonds or be subject to any personal liability by reason of their issuance.

Provisions Relating to Bond Insurance

In the Second Supplemental Agreement relating to the 2007 PFC Bonds, the Authority has agreed as follows for the benefit of the Insurer. In the event of any conflict between any of the following provisions and any other provision of the PFC Trust Agreement or the Second Supplemental Agreement, the following provisions shall govern.

(a) As used herein: "Insurance Policy" means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Insured Series 2007 Bonds when due; “Insured Series 2007 Bonds” means, collectively, the 2007-B PFC Bonds maturing on July 1 in each of the years 2010 through 2017 and the 2007-D PFC Bonds maturing on July 1 of each of the years 2010 through 2017; and "Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

(b) The prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Series 2007B&D Account of the Debt Service Reserve Fund.

(c) The Insurer shall be deemed to be the sole holder of the Insured Series 2007 Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Insured Series 2007 Bonds are entitled to take pursuant to the PFC Trust Agreement, including without limitation actions pertaining to defaults and remedies and pertaining to the Trustee; provided, however, that the consent of the Owners of the Insured Series 2007 Bonds shall be necessary for any amendment that would change the rate of interest or premium payable with respect thereto or the times of payment of interest, principal or premium with respect to the Insured Series 2007 Bonds. The Trustee shall take no action with respect to the Insured Series 2007 Bonds except with the consent, or at the direction, of the Insurer. Without limiting the foregoing, in the event that the rating of the provider of a repurchase agreement or an investment contract is withdrawn, suspended or downgraded with the result that under subparagraph (f) or (m) of the definition of "Investment Securities" in the PFC Trust Agreement the Trustee may direct the termination of such agreement or contract, then the Trustee shall give such direction if so instructed in writing by the Insurer.

(d) The Insurer shall be included as a third party beneficiary to the PFC Trust Agreement.

(e) No modification, amendment or supplement to the PFC Trust Agreement or the PFC Continuing Disclosure Agreement (together, the "Related Documents") relating to or affecting the Insured Series 2007 Bonds, the Owners thereof or the Insurer may become effective except upon obtaining the prior written consent of the Insurer; provided, without limitation, that it is understood that such consent of the Insurer shall not be required (i) with respect to any amendment permitted without the consent of Bondholders as provided in of the PFC Trust Agreement (except as provided in subsection (h) thereof) or (ii) to the extent that a Supplemental Agreement provides for the issuance of an additional Series of PFC Bonds in accordance with the terms of the PFC Trust Agreement.

(f) Copies of any modification or amendment to any Related Document shall be sent to S&P and Moody's at least ten days prior to the effective date thereof.

(g) Rights of the Insurer to direct or consent to Authority, Trustee or Bondholder actions under the PFC Trust Agreement shall be suspended during any period in which the Insurer is in default in its payment

obligations under the Insurance Policy (except to the extent of amounts previously paid by the Insurer and due and owing to the Insurer) and shall be of no force or effect in the event the Insurance Policy is no longer in effect or the Insurer asserts that the Insurance Policy is not in effect or the Insurer shall have provided written notice that it waives such rights.

(h) The rights granted to the Insurer under the Related Documents to request, consent to or direct any action are rights granted to the Insurer in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of such rights is merely an exercise of the Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Owners of the Insured Series 2007 Bonds.

(i) To accomplish defeasance the Authority shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Insurer verifying the sufficiency of the escrow established to pay in full the Insured Series 2007 Bonds or portion thereof being defeased on the maturity or redemption date ("Verification"), (ii) an Escrow Deposit Agreement (which shall be reasonably acceptable in form and substance to the Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the Insured Series 2007 Bonds or portion thereof being defeased are no longer Outstanding under the PFC Trust Agreement; each Verification and defeasance opinion shall be reasonably acceptable in form and substance, and addressed, to the Authority, the Trustee and the Insurer; provided, however, that in the case of a "gross funding" of a current defeasance escrow, the Verification may be provided by a financial officer of the Authority and shall not require the report of an independent accountant. In the event a forward purchase agreement will be employed in the refunding, such agreement shall be subject to the approval of the Insurer and shall be accompanied by such opinions of counsel as may be reasonably required by the Insurer. The Insurer shall be provided with final drafts of the above-referenced documentation not less than five Business Days prior to the funding of the escrow.

(j) Amounts paid by the Insurer under the Insurance Policy shall not be deemed paid for purposes of the PFC Trust Agreement and shall remain Outstanding and continue to be due and owing until paid by the Authority in accordance with the PFC Trust Agreement.

(k) Claims Upon the Insurance Policy and Payments by and to the Insurer.

If, on the third Business Day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Trustee, after making all transfers and deposits required under the Agreement, monies sufficient to pay the principal of and interest on the Insured Series 2007 Bonds due on such Payment Date, the Trustee shall give notice to the Insurer and to its designated agent (if any) (the "Insurer's Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such Business Day. If, on the second Business Day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Insured Series 2007 Bonds due on such Payment Date, the Trustee shall make a claim under the Insurance Policy and give notice to the Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Insured Series 2007 Bonds and the amount required to pay principal of the Insured Series 2007 Bonds, confirmed in writing to the Insurer and the Insurer's Fiscal Agent by 12:00 noon, New York City time, on such second Business Day by filling in the form of Notice of Claim and Certificate delivered with the Insurance Policy.

In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the monies due, the Trustee shall authenticate and deliver to affected Owners who surrender their Insured Series 2007 Bonds a new Insured Series 2007 Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Insured Series 2007 Bond surrendered. The Trustee shall designate any

portion of payment of principal on Insured Series 2007 Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Insured Series 2007 Bonds registered to the then current Owners, whether DTC or its nominee or otherwise, and shall issue a replacement Insured Series 2007 Bond to the Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Insured Series 2007 Bond shall have no effect on the amount of principal or interest payable by the Authority on any Insured Series 2007 Bond or the subrogation rights of the Insurer.

The Trustee shall keep a complete and accurate record of all funds deposited by the Insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect of any Insured Series 2007 Bond. The Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Owners of the Insured Series 2007 Bonds referred to herein as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the Insurance Policy in trust on behalf of Owners of the Insured Series 2007 Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Owners of the Insured Series 2007 Bonds in the same manner as principal and interest payments are to be made with respect to the Insured Series 2007 Bonds under the provisions of the PFC Trust Agreement regarding payment of Insured Series 2007 Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

Any funds remaining in the Policy Payments Account following an Insured Series 2007 Bond payment date shall promptly be remitted to the Insurer.

(l) The Insurer shall, to the extent it makes any payment of principal of or interest on the Insured Series 2007 Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy.

(m) The Insurer shall be entitled to pay principal or interest on the Insured Series 2007 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (as such terms are defined in the Insurance Policy), whether or not the Insurer has received a Notice of Nonpayment (as such terms are defined in the Insurance Policy) or a claim upon the Insurance Policy.

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PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Massachusetts Port Authority (the "Issuer") and The Bank of New York (together with any successor, the "Dissemination Agent") in connection with the issuance of one or more series of bonds secured by certain passenger facility charges ("PFCs") under a PFC Revenue Bond Trust Agreement (the "PFC Trust Agreement") dated as of May 6, 1999 between the Issuer and The Bank of New York, as Trustee (the "Trustee"), by or on behalf of the Issuer and designated by duly adopted resolution of the Issuer as subject to and having the benefits of this Disclosure Agreement (such bonds referred to herein collectively as the "PFC Bonds"). The Issuer and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Dissemination Agent for the benefit of the owners of PFC Bonds and in order to assist Participating Underwriters in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to terms defined elsewhere in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

"Annual Filing" shall mean any Annual Filing provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Disclosure Representative" shall mean the Chief Financial Officer/Director of Administration and Finance of the Issuer, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean The Bank of New York, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer and the Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

"Owners of the PFC Bonds" or "Owners" shall mean the registered owners, including beneficial owners, of the PFC Bonds.

"Participating Underwriters" shall mean the original underwriters of any PFC Bonds required to comply with the Rule in connection with offering of such PFC Bonds.

"PFC Trust Agreement" shall mean the PFC Revenue Bond Trust Agreement dated as of May 6, 1999, as amended and supplemented, between the Issuer and Bank of New York, as Trustee.

"Repository" shall mean each National Repository and the State Depository, if any.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts (the "Commonwealth") as a state information depository for the purpose of the Rule.

SECTION 3. Provision of Annual Filings.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than January 1 of each year, commencing January 1, 2000, provide to the Trustee and to each Repository an Annual Filing which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) business days prior to said date, the Issuer shall provide the Annual Filing to the Dissemination Agent. In each case, the Annual Filing may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted, when available, separately from the balance of the Annual Filing.

(b) If by fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Filing to Repositories, the Dissemination Agent has not received a copy of the Annual Filing, the Dissemination Agent shall contact the Issuer to determine if the Issuer is in compliance with subsection (a).

(c) If the Dissemination Agent is unable to verify that an Annual Filing has been provided to Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Filing the name and address of each National Repository and each State Depository, if any; and

(ii) file a report with the Issuer certifying that the Annual Filing has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Filings. The Issuer's Annual Filing shall contain or incorporate by reference the following:

(a) data for, or as of the end of, the preceding fiscal year of the type presented in the Issuer's most recent official statement relating to bonds issued pursuant to the PFC Trust Agreement of (i) the section captioned "Historical and Forecast PFCs and Estimated Debt Service Coverage"; (ii) the chart captioned "Boston-Logan International Airport Market Shares of Total Passenger Traffic"; (iii) the table captioned "Top Twenty Domestic Passenger Markets U.S. Certified Carriers"; and (iv) the table captioned "Selected Boston-Logan International Airport Traffic Statistics"; and until the Issuer delivers certificates of completion to the FAA for all elements of the 1999 PFC Bond Projects, data describing the sources and uses of funds for the 1999 PFC Bond Projects and the cost to complete the 1999 PFC Bond Projects;

(b) a calculation of the First Lien Sufficiency Covenant as of the end of the preceding fiscal year, in accordance with the PFC Trust Agreement; and

(c) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles. (If audited financial statements for the preceding fiscal year are not available when the Annual Filing is submitted, the Annual Filing will include unaudited financial statements for the preceding fiscal year.)

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The Issuer shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to any PFC Bonds, if material:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Receipt by the Issuer of an adverse tax opinion or the occurrence of an event affecting the tax-exempt status of any PFC Bonds.

7. Modifications to rights of any Owners of the PFC Bonds.

8. PFC Bond calls (other than regularly scheduled redemptions).

9. Defeasance of any PFC Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of any PFC Bonds.

11. Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material under applicable federal securities laws, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(c) If such Listed Event is not material, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence promptly with the Municipal Securities Rulemaking Board and the State Depository, if any.

(e) Anything in this Section 5 to the contrary notwithstanding, neither the Issuer nor the Dissemination Agent shall have any obligation to give notice of or otherwise report any Listed Event with respect to any series of PFC Bonds as to which another obligated person (as such term is defined in the Rule) has entered into an undertaking to provide such notice in accordance with the Rule.

SECTION 6. Termination of Reporting Obligation. The Issuer's and Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the PFC Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Issuer which does not modify or otherwise affect its duties, obligations or liabilities in such a way as they are expanded or increased), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities laws acceptable to both the Issuer and the Dissemination Agent to the effect that such amendment or waiver would not,

in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Filing for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Agreement the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount outstanding of any series of PFC Bonds, shall), or any Owner of any PFC Bonds may seek a court order for specific performance by the Issuer or Dissemination Agent, as the case may be, of its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the PFC Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance of the defaulting party's obligations hereunder and not for money damages in any amount.

SECTION 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and, to the extent permitted by law, the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the PFC Bonds. The Dissemination Agent shall not be responsible for determining whether the Issuer's Annual Filing meets the requirements of the Rule or contains all of the information required under Section 4 hereof.

SECTION 10. Fees. The Issuer will pay the Dissemination Agent its reasonable fees and expenses incurred in connection with this Disclosure Agreement, including fees and expenses incurred as a result of any action taken by the Trustee under Section 8 hereof. The provisions of this section shall survive the termination of this Disclosure Agreement.

SECTION 11. Replacement of Dissemination Agent. The Authority, in its sole discretion, may replace the Dissemination Agent at any time with a successor Dissemination Agent by so notifying the Dissemination Agent in writing; provided, however, that any such replacement shall not be effective until a successor Dissemination Agent has been duly appointed. If an instrument of acceptance by a successor Dissemination Agent shall not have been delivered to the Dissemination Agent within 30 days after the giving of such notice of removal, the Dissemination Agent being removed may petition any court of competent jurisdiction for the appointment of a successor Dissemination Agent.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, Participating Underwriters and Owners from time to time of the PFC Bonds, and shall create no rights in any other person or entity.

SECTION 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 14. Notices. Unless otherwise expressly provided, all notices to the Issuer and the Dissemination Agent shall be in writing and shall be deemed sufficiently given if sent by registered or certified mail, postage prepaid, or delivered during a business day.

SECTION 15. Governing Law. This instrument shall be governed by the laws of the Commonwealth.

IN WITNESS WHEREOF, the parties have caused this Disclosure Agreement to be duly executed under seal all as of the date hereof.

Date: ____________, 1999

MASSACHUSETTS PORT AUTHORITY

By____________________________
Title:

THE BANK OF NEW YORK, as
Dissemination Agent

By______________________________________
Authorized Officer

EXHIBIT A

NATIONAL REPOSITORIES

Bloomberg Municipal Repositories
P.O. Box 840
Princeton, New Jersey 08542-0840
PH: (609) 279-3225
FAX: (609) 279-5962
E-Mail: MUNIS@Bloomberg.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
PH: (201) 346-0701
FAX: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

Kenny Information Systems, Inc.
65 Broadway - 16th Floor
New York, New York 10006
PH: (212) 770-4595
FAX: (212) 797-7994

Thomson NRMSIR
Attn: Municipal Disclosure
395 Hudson Street, 3d Floor
New York, New York 10014
PH: (212) 807-5001
OR (800) 689-8466
FAX: (212) 989-2078
E-Mail: Disclosure@Muller.com

APPENDIX E

EXHIBIT B

NOTICE OF FAILURE TO FILE ANNUAL FILING

Name of Issuer:

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Filing as required by the Continuing Disclosure Agreement dated as of ________, 1999 between the Issuer and The Bank of New York. The Issuer anticipates that the Annual Filing will be filed by ___________________.

Dated: ________________

THE BANK OF NEW YORK,
on behalf of the Issuer

By_________________________________

cc: Massachusetts Port Authority

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ROPES & GRAY
ROPES & GRAY LLP
ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050
BOSTON NEW YORK PALO ALTO SAN FRANCISCO WASHINGTON, DC www.ropesgray.com

[Date of delivery]

Massachusetts Port Authority
One Harborside Drive
Suite 200S
East Boston, Massachusetts 02128

Re: Massachusetts Port Authority $48,480,000 PFC Revenue Bonds, Series 2007-B (the "2007-B Bonds") and $65,130,000 PFC Revenue Refunding Bonds, Series 2007-D (the "2007-D Bonds" and, together with the 2007-B Bonds, the "2007 PFC Bonds"), issued under the PFC Revenue Bond Trust Agreement dated as of May 6, 1999 as amended and supplemented (the "PFC Trust Agreement"), by and between the Massachusetts Port Authority (the "Authority") and The Bank of New York, as Trustee (the "Trustee")

Ladies and Gentlemen:

We are Bond Counsel to the Authority and have supervised, as to legality, its proceedings for the authorization, issue and sale of the 2007 PFC Bonds.

We have examined Chapter 465 of the Massachusetts Acts of 1956, as amended (said Chapter 465 as so amended being hereinafter called the "Enabling Act"), and other applicable statutes, an executed copy of the PFC Trust Agreement, a resolution of the Authority providing for the issuance of the 2007 PFC Bonds adopted May 17, 2007 (the "2007 PFC Bond Resolution"), certified copies of the by-laws of the Authority and such certificates and such other papers relating to the Authority, to the 2007 PFC Bonds and to the Agreement, and have made such other examination, as we have deemed necessary in connection with this opinion.

Terms used herein that are defined in the PFC Trust Agreement are used with the meanings so defined.

Based on the foregoing, we are of the opinion that:

1. The Authority is duly constituted and validly existing as a body politic and corporate and a public instrumentality with sufficient power and authority to adopt the 2007 PFC Bond Resolution and to issue the 2007 PFC Bonds.

2. The 2007 PFC Bonds are authorized by the Enabling Act, and have been duly authorized by the 2007 PFC Bond Resolution, for the purposes specified in Sections 9 and 19 of the Enabling Act.

3. The Authority has the right and power under the Enabling Act to enter into the PFC Trust Agreement; and the PFC Trust Agreement has been duly and lawfully authorized, executed and delivered by the Authority, is in full force and effect and, subject to the qualification expressed in paragraph 4 below, is a valid, binding and enforceable obligation of the Authority.

4. All conditions precedent to the delivery of the 2007 PFC Bonds set forth in the PFC Trust Agreement and the 2007 PFC Bond Resolution have been met and the 2007 PFC Bonds have been duly and validly executed, authenticated and delivered in accordance with the Enabling Act and the PFC Trust Agreement and are valid and binding limited obligations of the Authority enforceable in accordance with their terms and the terms of the PFC Trust Agreement; provided, that enforcement of the obligations of the Authority, including the PFC Trust Agreement and the 2007 PFC Bonds, is subject to laws of bankruptcy, reorganization and insolvency and other laws affecting creditors' rights generally and with respect to the exercise of judicial discretion in accordance with general equitable principles.

5. The PFC Trust Agreement creates the valid pledge which it purports to create of the Pledged Revenue, proceeds of the 2007 PFC Bonds and amounts on deposit in certain of the Funds established under the PFC Trust Agreement. The 2007 PFC Bonds are not general obligations of the Authority, and the faith and credit of the Authority are not pledged for the payment of the 2007 PFC Bonds. Neither The Commonwealth of Massachusetts nor any political subdivision thereof is obligated to pay any of the 2007 PFC Bonds or the interest thereon, and neither the faith and credit nor the taxing power of The Commonwealth of Massachusetts or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2007 PFC Bonds.

6. Under existing law, interest on the 2007 PFC Bonds (which includes any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the 2007 PFC Bonds is not an item of tax preference for purposes of computing the alternative minimum tax imposed on certain taxpayers; however, interest on the 2007 PFC Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. Moreover, the receipt of interest on the 2007 PFC Bonds may have certain collateral tax consequences under federal tax law. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Authority comply with all requirements and restrictions in the Code that must be satisfied subsequent to the issuance of the 2007 PFC Bonds in order that interest thereon be, and continue

to be, excluded from gross income for federal income tax purposes, including without limitation requirements and restrictions relating to the use and expenditure of the proceeds of the 2007 PFC Bonds, the investment thereof and the rebate of certain earnings thereon to the United States government. The Authority has covenanted to comply with such requirements and restrictions. Failure to comply with such requirements and restrictions may cause the inclusion of interest on the 2007 PFC Bonds in gross income for federal income tax purposes retroactive to the date hereof. We express no opinion regarding any federal tax consequences arising with respect to the 2007 PFC Bonds other than as set forth in the first sentence of this paragraph.

7. Interest on the 2007 PFC Bonds and any profit made on the sale thereof are exempt under existing law from Massachusetts personal income taxes, and the 2007 PFC Bonds are exempt from Massachusetts personal property taxes We express no opinion regarding other Massachusetts tax consequences arising with respect to the 2007 PFC Bonds, or regarding the tax consequences of states other than The Commonwealth of Massachusetts.

Very truly yours,

Ropes & Gray LLP

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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: Effective Date:

Premium: $

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
31 West 52nd Street, New York, N.Y. 10019

Form 500NY (5/90)

MASSACHUSETTS PORT AUTHORITY • PFC REVENUE BONDS, SERIES 2007-B (NON-AMT) AND PFC REVENUE REFUNDING BONDS, SERIES 2007-D (NON-AMT)

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